SOUTHWEST REGIONAL WATER DISTRICT

Butler County, Ohio

Regular Audit

January 1, 2007 through December 31, 2007

Fiscal Year Audited Under GAGAS: 2007

BALESTRA, HARR & SCHERER, CPAS, INC.
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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, 2007 through December 31, 2007. 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

July 25, 2008

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SOUTHWEST REGIONAL WATER DISTRICT

Basic Financial Statements

For the Years Ended December 31, 2007 and December 31, 2006

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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, 2007 and December 31, 2006. 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, 2007 and December 31, 2006, 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 March 31, 2008, 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 10 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 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 Number 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues.*

Balestra, Harr & Scherer

Balestra, Harr & Scherer, CPAs, Inc.
March 31, 2008

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, 2007 by $30 million and by $30 million on December 31, 2006.

- The District's net assets increased $565 thousand in 2007 and $659 million in 2006.

- The District's Operating Revenues increased by $500 thousand (7%) in 2007 and decreased by $292 thousand (-4%) in 2006 with Operating and Maintenance Expenses increasing $459 thousand (9%) in 2007 and $165 thousand (4%) in 2006.

OVERVIEW OF BASIC FINANCIAL STATEMENTS

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

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

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

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

NET ASSETS

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

SOUTHWEST REGIONAL WATER DISTRICT

MANAGEMENT DISCUSSION AND ANALYSIS
(Unaudited)

TABLE 1

	2007	**2006**	Change Amount	%
Current and Other Assets	$10,502,140	$10,310,846	$ 191,292	2%
Capital Assets	42,661,427	42,421,390	240,038	1%
Total Assets	53,163,567	52,732,236	431,330	1%
Long Term Liabilities	19,573,982	20,857,064	(1,283,082)	-6%
Other Liabilities	3,157,406	2,007,749	1,149,657	57%
Total Liabilities	$22,731,388	$22,864,813	($133,425)	-1%
Net Assets				
Invested in Capital, Net of Debt	$21,717,467	$20,224,790	$ 1,492,677	7%
Restricted	2,463,738	2,560,308	(96,570)	-4%
Unrestricted	6,250,974	7,082,325	(831,352)	-12%
Total Net Assets	$30,432,179	$29,867,423	$ 564,755	2%

	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%

- The District's Total Assets increased $431 thousand in 2007 due to in part to increases in cash and capital contributions. The decrease in 2006 of $474 thousand was due primarily from decreases in cash used for improvement projects, such as two new water tank constructions.
- The District's Net Assets increased $565 thousand in 2007 and $658 thousand in 2006. These increases are a result of excess revenues over expenses, plus capital contributions.
- The District issued $126 thousand in special assessment debt in 2007 and incurred no new long term debt in 2006. Long-term liabilities reduced $1.28 million from payments on debt in 2007. In 2006, long term liabilities decreased by $1.38 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

	2007	**2006**	Change Amount	%
Operating Revenues	$ 7,646,154	$ 7,146,546	$ 499,608	7.0%
Total Revenues	7,646,154	7,146,546	499,608	7.0%
Operating Expenses	4,260,040	4,026,672	233,368	5.8%
Maintenance Expenses	1,053,086	827,223	225,863	27.3%
Depreciation Expenses	1,583,763	1,492,131	91,632	6.1%
Total Expenses	6,896,889	6,346,026	550,863	8.7%
Operating Income	749,265	800,520	(51,255)	-6.4%
Non-Operating Revenues	815,047	697,622	117,425	16.8%
Non-Operating Expenses	(1,165,400)	(1,163,770)	(1,630)	0.1%
Capital Contributions	165,844	324,215	(158,371)	-48.8%
Change in Net Assets	**$ 564,756**	**$ 658,587**	**$ (93,831)**	**-14.2%**

- Total Operating Revenues increased $499.6 thousand (7%) in 2007. An increase of $624 thousand (10%) in water sales was offset by a $150 thousand decrease (-22%) in the sale of new taps Grant monies for capital improvement projects increased $89 thousand and non-exchange revenues (primarily watermains and appurtenances contributed by developers) decreased $198 thousand, resulting in a decrease of $158 thousand (-48%) in total capital contributions in 2007. 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 9% ($459 thousand) in 2007. Chemical costs, fuel costs, energy costs and employee health care costs, contributed to a portion of these increases. A larger than normal share of labor was used for maintenance vs. capital installations for new services.

TABLE 2 (Continued)

	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 (-4%) in 2006. An increase of $127 thousand (2%) in water sales was offset by a $435 thousand decrease (-34%) in the sale of new taps. Grant monies for capital improvement projects increased $162 thousand and non-exchange revenues (primarily watermains and appurtenances contributed by developers) decreased $198 thousand, resulting in a decrease of $412 thousand (-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) in 2006. Chemical costs, fuel costs and employee health care costs, which contributed to substantial increases in 2005, stabilized somewhat in 2006.

CAPITAL ASSETS

The District had $61.3 million at the end 2007 and $59.5 million at the end of 2006 (before depreciation) invested in Capital Assets, as shown in Table 3. These amounts are an increase of $240 thousand (1%) from 2006 to 2007 and $2.3 million from 2005 to 2006 (4%).

TABLE 3

	2007	2006	Change Amount	%
Land	$ 234,806	$ 234,806	$ -	0%
Structures	2,354,767	2,285,461	69,306	3%
Distribution System	54,624,911	52,075,805	2,549,106	5%
SCADA System	522,147	282,640	239,507	85%
Vehicles	927,487	900,818	26,669	3%
Laboratory Equipment	23,238	23,238	-	0%
Office Furniture & Equipment	571,946	519,813	52,133	10%
Misc. Plant & Repair Equipment	145,623	145,623	-	0%
Construction in Progress	1,946,312	3,059,233	(1,112,921)	-36%
Totals before Depreciation	61,351,237	59,527,437	1,823,800	3%
Accumulated Depreciation	(18,689,810)	(17,106,047)	(1,583,763)	9%
Total Capital Assets	$ 42,661,427	$ 42,421,390	$ 240,037	1%

	2006	2005	Change Amount	%
Land	$ 234,806	$ 234,806	$ -	0%
Structures	2,285,461	2,277,567	7,894	0%
Distribution System	52,075,805	51,552,503	523,302	1%
SCADA System	282,640	282,640	-	0%
Vehicles	900,818	853,734	47,084	6%
Laboratory Equipment	23,238	23,238	-	0%
Office Furniture & 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%

- The $240 thousand increase in Capital assets in 2007 is a result of closing Booster Station improvements and closing North Treatment Plant improvements. Other increases are from new watermain and water services installations. The initial costs of these improvements were posted to the constructions in progress account. Those costs are removed from this account and applied to the appropriate capital account when completed, resulting in the $1.1 million decrease.

- 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

	2007	2006	Change Amount	%
Revenue Bonds				
2003 Revenue Bonds	$ 13,816,383	$ 14,889,683	$ (1,073,300)	-7%
Rural Development Bonds	2,608,139	2,662,136	(53,997)	-2%
Total Revenue Bonds	16,424,522	17,551,819	(1,127,297)	-6%
Special Assessment Bonds	5,473,000	5,677,000	(204,000)	-4%
Ohio Water & Sewer Rotary Commission	62,441	62,441	-	0%
Total Long Term Debt	21,959,963	23,291,260	(1,331,297)	-6%
Less				
Reacquisition Cost 1995 Revenue Bonds				
Advance Refunding	(1,016,002)	(1,094,660)	78,658	-7%
Current Maturities	(1,469,440)	(1,360,338)	(109,102)	8%
Net Total Long Term Debt	$ 19,474,521	$ 20,836,262	$ (1,361,741)	-7%

SOUTHWEST REGIONAL WATER DISTRICT

MANAGEMENT DISCUSSION AND ANALYSIS
(Unaudited)

TABLE 4
(continued)

	2006	2005	Change Amount	%
Revenue Bonds				
2003 Revenue Bonds	$ 14,889,683	$ 15,937,984	$ (1,048,301)	-7%
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%
Total Long Term Debt	23,291,260	24,704,322	(1,413,062)	-6%
Less				
Reacquisition Cost 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%

- The District issued $126 thousand in Special Assessment debt to finance water improvements projects and pay-off the 2006 Bond Anticipation Note in 2007. There was no new long term debt in 2006 or 2005.

- In 2007 the District issued a short term Bond Anticipation Note (BAN) in the amount of $985 thousand. The note was issued to construct two water storage tanks and replace master pressure reducing stations.

- In 2006, the District issued a short term Bond Anticipation Note (BAN) in the amount of $46,290 for re-imbursement of costs incurred with Somerville Road Water Improvements. This note 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

	2007	2006	2005
Operating Revenues	$ 7,646,155	$ 7,146,546	$ 7,438,497
Non-Operating Revenue	425,969	399,168	373,029
Total Revenues	**8,072,124**	**7,545,714**	**7,811,526**
Less Operations & Maintenance Expenses	(5,313,126)	(4,853,895)	(4,688,811)
Total Revenues Available for Debt	**2,758,998**	**2,691,819**	**3,122,715**
Revenue Bond Debt Service - 1995 & 2003	1,626,243	1,621,843	1,627,118
Revenue Bond Debt Service - Rural development	223,708	223,708	223,708
Special Assessment - Deficit Collections	45,613	45,613	46,307
Total Debt Service Requirements	**$ 1,895,564**	**$ 1,891,164**	**$ 1,897,133**
Combined Coverage Ratio - All Debt	**1.46**	**1.42**	**1.65**
Required Coverage Ratio			
Revenue Bonds - 1995 & 2003	1.2	1.2	1.2
Rural Development	1	1	1

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, 2007 were $3.58 million. $2.46 million of these funds are restricted for specific use. 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 $ 508 thousand in net assets for year ending December 31, 2008. 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 construction of a new water storage tank to begin in 2008. 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
STATEMENT OF NET ASSETS
As of December 31, 2007 and 2006

ASSETS		**2007**		**2006**
CURRENT ASSETS				
Cash and cash equivalents	$	1,116,575	$	967,986
Accounts receivable (net allowance for doubtful accounts of $30,475 for 2007 and $30,475 for 2006)		857,130		864,429
Special assessments receivable - current portion		332,000		330,000
Accrued interest receivable		147,453		147,540
Inventory		855,218		575,364
Prepaid expenses		68,825		34,115
TOTAL CURRENT ASSETS		3,377,201		2,919,434
NONCURRENT ASSETS				
Restricted Assets:				
Equity in pooled cash with fiscal agents		-		42,720
Equity in pooled cash and cash equivalents		2,463,738		2,517,588
TOTAL RESTRICTED ASSETS		2,463,738		2,560,308
Capital Assets:				
Water, production, treatment and distribtuion systems		54,624,911		52,075,805
Building, office furniture and equipment		4,545,208		4,157,593
Total depreciable capital assets		59,170,119		56,233,398
Less: Accumulated depreciation		(18,689,810)		(17,106,047)
Net depreciable capital assets		40,480,309		39,127,351
Land		234,806		234,806
Construction in progress		1,946,312		3,059,233
NET CAPITAL ASSETS		42,661,427		42,421,390
Other Assets:				
Special assessments receivable - non current		4,327,916		4,543,871
Deferred Charges		333,285		287,233
TOTAL OTHER ASSETS		4,661,201		4,831,104
TOTAL ASSETS	$	53,163,567	$	52,732,236

(Continued)

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

SOUTHWEST REGIONAL WATER DISTRICT
STATEMENT OF NET ASSETS
As of December 31, 2007 and 2006

	2007	2006
LIABILITIES		
CURRENT LIABILITIES		
Current maturities of long term obligations	$ 1,469,440	$ 1,360,338
Accounts payable	165,591	106,921
Notes payable	985,000	46,290
Accrued liabilities	117,100	69,429
Tenant deposits	46,690	42,096
Accrued interest	373,585	304,016
TOTAL CURRENT LIABILITIES	3,157,406	1,929,090
LONG TERM LIABILITIES		
Deferred revenue	99,461	99,461
Long term obligations	19,474,521	20,836,262
TOTAL LONG TERM LIABILITIES	19,573,982	20,935,723
TOTAL LIABILITIES	22,731,388	22,864,813
NET ASSETS		
Invested in capital assets, net of related debt	21,717,467	20,224,790
Restricted for debt service	2,463,738	2,560,308
Unrestricted	6,250,974	7,082,325
TOTAL NET ASSETS	$ 30,432,179	$ 29,867,423

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 the Years Ended December 31, 2007 and 2006

	2007	2006
OPERATING REVENUES		
Metered Water Sales to customers	$ 6,664,416	$ 6,040,056
Sales of New taps	680,702	831,105
Penalties	180,933	163,001
Miscellaneous	120,103	112,384
TOTAL OPERATING REVENUES	7,646,154	7,146,546
OPERATING EXPENSES		
Operations	4,260,040	4,026,672
Maintenance	1,053,086	827,223
Depreciation	1,583,763	1,492,131
TOTAL OPERATING EXPENSES	6,896,889	6,346,026
OPERATING INCOME	749,265	800,520
NONOPERATING REVENUES (EXPENSES)		
Intergovernmental	387,213	297,493
Interest Income	425,969	399,168
Interest Expense	(1,165,400)	(1,163,770)
Other non-operating revenue (expense)	1,865	961
Net Other Income (Expense)	(350,353)	(466,148)
CHANGES IN NET ASSETS BEFORE CAPITAL CONTRIBUTIONS	398,912	334,372
Capital Contributions-owner/developer	165,844	324,215
Total Capial Contributions	165,844	324,215
CHANGE IN NET ASSETS	564,756	658,587
NET ASSETS, BEGINNING OF YEAR	29,867,423	29,208,836
NET ASSETS, END OF YEAR	$ 30,432,179	$ 29,867,423

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, 2007 and 2006

	2007	2006
Cash Flows From Operating Activities:		
Receipts from Customers	$ 7,533,350	$ 6,904,876
Receipts from others	120,103	112,384
Payments to Suppliers and Vendors	(2,537,418)	(2,245,894)
Payments to Employees	(3,025,389)	(2,609,070)
Net Cash Provided (Used) by Operating Activities	2,090,646	2,162,296
Cash Flows From Capital and related financing Acqtivities:		
Proceeds from capital grants	387,213	297,493
Acquisition & Construction of capital assets	(1,693,478)	(2,024,420)
Payments on Borrowings	(1,503,587)	(1,334,403)
Proceeds from Debt Issuance	1,111,000	46,290
Collections on Special Assessments	330,000	314,961
Interest Paid	(1,095,831)	(1,005,528)
Net Cash Used By Capital Financing Activities	(2,464,683)	(3,705,607)
Cash Flows From Investing Acqtivities:		
Interest Received	426,056	282,397
Net Cash Provided By Capital Financing Activities	426,056	282,397
Net increase/decrease in cash and cash equivalents	52,019	(1,260,914)
Cash and cash equivalents, January 1,	3,528,294	4,789,208
Cash and cash equivalents, December 31,	3,580,313	3,528,294
Restricted Cash	2,463,738	2,560,308
Unrestricted Cash	1,116,575	967,986
Total Cash	$ 3,580,313	$ 3,528,294

Reconciliation of Change in Net Assets to Net Cash Provided (Used) By Operating Activities:

	2007	2006
Operating Income	$ 749,265	$ 800,520
Adjustments to reconcile net income to net cash from operating activities:		
Depreciation Expense	1,583,763	1,492,131
(Increase) Decrease in Accounts Receivable	7,299	(132,394)
(Increase) Decrease in Prepaid Items	(34,710)	(85)
(Increase) Decrease in Materials and Supplies Inventory	(279,854)	(15,492)
Deferred Charges	(46,052)	20,639
Increase (Decrease) in Accounts Payable	58,670	(5,093)
Increase (Decrease) in Accrued Liabilities	47,671	(1,228)
Increase (Decrease) in Tenant Deposits	4,594	193
Increase (Decrease) in Deferred Revenue	-	3,105
Total Adjustments	1,341,381	1,361,776
Net Cash Provided by Operating Activities	$ 2,090,646	$ 2,162,296

Developers dedicated water lines with total costs of $165,842 and $324,215 in 2007 and 2006, 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, retained earnings/fund balance, revenues, and expenses. This fund accounts for the governmental resources allocated to it for the purpose of carrying on specific activities in accordance with laws, regulations or other restrictions. The fund type, which SWRWD uses, is described below:

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

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

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

3. **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 2007. 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.

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 there use is limited by applicable security interests. The restricted assets are used for assuring payment of future principal and interest.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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. The District maintains a capitalization threshold of $1,500.

7. **Provision for Income Tax**
SWRWD operates as a government entity which operates public water system exempt from federal income tax.

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 2007, 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 Trustees has identified as not required for use within the current two-year period of designation of depositories. Inactive deposits must be evidenced either by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.

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

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

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

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, 2007 was $3,303,702 and the bank balance was $3,420,526. Of the bank balance:

1. $454,064 was covered by federal depository insurance; and

2. $727,224 was collateralized third party trustee in single institution collateral pools, securing all public funds on deposit with specific depository institutions.

3. $2,239,238 was deposited in trust accounts in accordance with the District's Revenue and Special Assessment Bonds Trust Agreements.

Investments – As of December 31, 2007 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	$276,610	$276,610

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

3. CASH AND INVESTMENTS (continued)

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

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

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

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

4. CAPITAL ASSETS

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

	Balance at 12/31/2006	Additions	Retirements Disposals	Balance at 12/31/2007
Non-Depreciable:				
Land	234,806	-	-	234,806
Construction in Progress	3,059,233	-	1,112,921	1,946,312
Total Non-Depreciable	3,294,039	-	1,112,921	2,181,118
Depreciable:				
Structures	2,285,461	69,306	-	2,354,767
Distribution System	52,075,804	2,549,107	-	54,624,911
SCADA/Tank Monitoring Equip.	282,640	239,507	-	522,147
Vehicles	900,818	26,669	-	927,487
Laboratory Equipment	23,238	-	-	23,238
Office Furniture & Equipment	519,813	52,133	-	571,946
Misc. Plant & Repair Equipment	145,623	-	-	145,623
Total Depreciable	56,233,397	2,936,722	-	59,170,119
Totals at Historical Cost	59,527,436	2,936,722	1,112,921	61,351,237
Accumulated Depreciation:				
Structures	(1,562,325)	(72,668)	-	(1,634,993)
Distribution System	(14,488,029)	(1,357,347)	-	(15,845,376)
GIS/Tank Monitoring Equipment	(147,437)	(40,478)	-	(187,915)
Transport/Construction Equip.	(481,779)	(56,256)	-	(538,035)
Laboratory Equipment	(11,246)	-	-	(11,246)
Office Furniture & Equipment	(312,269)	(49,872)	-	(362,141)
Misc. Plant & Repair Equipment	(102,962)	(7,142)	-	(110,104)
Total Accumulated Depreciation:	(17,106,047)	(1,583,763)	-	(18,689,810)
Capital Assets, Net	42,421,389	1,352,959	1,112,921	42,661,427

5. SHORT TERM OBLIGATIONS

During 2007, the District issued $985,000 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 March 12, 2008.

Description	12/31/2006 Balance	Issued in 2007	Payments in 2007	12/31/2007 Balance	Due Within One Year
Bond Anticipation Note	46,290	985,000	46,290	985,000	985,000

6. LONG TERM OBLIGATIONS

Long-term obligations consist of:

Description	12/31/2006 Balance	Issued in 2007	Payments in 2007	12/31/2007 Balance	Due Within One Year
USDA, Rural Development Bonds	2,662,136	-	53,997	2,608,139	57,440
Special Assessment Water Line Extension Bonds - Series 1994	80,000	-	10,000	70,000	10,000
Special Assessment Water Line Extension Bonds - Series 1996	630,000	-	50,000	580,000	50,000
Special Assessment Water Line Extension Bonds - Series 1997	67,000	-	5,000	62,000	5,000
Special Assessment Water Line Extension Bonds - Series 1999	3,765,000	-	210,000	3,555,000	220,000
Special Assessment Water Line Extension Bonds - Series 2000	485,000	-	25,000	460,000	25,000
Special Assessment Water Line Extension Bonds - Series 2002	650,000	-	30,000	620,000	30,000
Special Assessment Water Line Extension Bonds - Series 2007	-	126,000	-	126,000	2,000
Revenue Bonds Series 2003	14,889,683	-	1,073,300	13,816,383	1,070,000
Advance note payable to State of Ohio	62,441	-	-	62,441	-
Total before Premium and defeased interest	23,291,260	126,000	1,457,297	21,959,963	1,469,440
Series 2003 - 1995 Bond Refunding					
Premium and defeased interest	(1,094,660)	-	(78,659)	(1,016,002)	(78,659)
Totals	22,196,600	126,000	1,378,638	20,943,961	1,390,781

6. LONG TERM OBLIGATIONS (Continued)

As of December 31, 2007, the maturities of the principal amount of long-term debt for the five years ending

Year	Principal	Interest
2008	1,469,440	1,013,901
2009	1,500,101	965,503
2010	1,343,997	913,489
2011	1,480,140	860,982
2012	1,519,548	800,844
2013-2017	8,122,782	2,905,460
2018-2022	5,011,221	936,936
2023-2027	868,350	301,812
2028-2031	408,001	39,417
	21,723,580	8,738,344
1995 Bond Refunding Defeased interest	(1,016,002)	
2003 Bond Issue Premium	236,383	
Total	20,943,961	8,738,344

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 are 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.

The District has pledged future water customer revenues, net of specified operating expenses, to repay $16,960,000 in water revenue bonds issued in 2003. Proceeds from the bonds provided financing for the construction of the Waterworks System. The bonds are payable solely from water customer net revenues and are payable through 2020. Annual principal and interest payments remaining on the bonds are expected to require approximately 70 percent of net revenues. The total principal and interest remaining to be paid on the bonds is $16,424,258. Principal and interest paid for the current year and total customer net revenues were $1,626,243 and $2,333,028, respectively.

6. 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 were paid in 2005.

The District has pledged future water customer revenues, net of specified operating expenses, to repay $2,805,708, in water revenue bonds issued in 2003. Proceeds from the bonds provided financing for the construction of the waterline improvements. The bonds are payable solely from water customer net revenues and are payable through 2029. Annual principal and interest payments remaining on the bonds are expected to require approximately 10 percent of net revenues. The total principal and interest remaining to be paid on the bonds is $4,864,143. Principal and interest paid for the current year and total customer net revenues were $223,708 and $2,333,028, respectively.

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

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

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

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

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

During 2007, $126,000 of Water line Extension, Special Assessment Series 2007, dated September 1, 2007 were issued. Payment on the bonds will be through property tax assessments of property owners benefiting from the water service provided. Payment of the bonds will be through the year 2027. The bonds mature at varying amounts and require interest payments at a rate of 6%.

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

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, 2007, 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, 2007 are as follows:

	Total Assessed	Prepaid Assessments	County Auditor and Deferred Assessments Paid	% Collected
1994 Assessments	227,778		80,000	35.12%
1996 Assessments	889,478	-	415,000	46.66%
1997 Assessments	94,579	-	36,000	38.06%
1999 Assessments	4,322,014	13,892	1,445,000	33.75%
2000 Assessments	579,383	12,144	150,000	27.99%
2002 Assessments	736,635	8,960	145,000	20.90%
2007 Assessments	116,045	-	-	0.00%
Total Receivable	6,965,912	34,996	2,271,000	

8. DEFINED BENEFIT RETIREMENT PLAN

A. Ohio Public Employees Retirement Systems of Ohio (PERS) administers three separate pension plans as described below:
   1) The Traditional Pension Plan (TP) – a cost-sharing multiple-employer defined benefit pension plan.
   2) The Member-Directed Plan (MD) – a defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20% per year). Under the Member-Directed Plan members accumulate retirement assets equal to the value of member and (vested) employer contributions plus any investment earnings thereon.
   3) The Combined Plan (CO) – a cost-sharing multiple-employer defined benefit pension plan. Under the Combined Plan 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. OPERS 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. For 2007, member and employer contribution rates were consistent across all three plans. While members in the state and local divisions may participate in all three plans, law enforcement and public safety divisions exist only within the Traditional Plan.
The 2007 member contribution rates were 9.5% for members I state and local classifications.
The 2007 employer contribution rate for state employers was 13.77% of covered payroll. For local government employer units, the rate was 13.85% of covered payroll. For both the law enforcement and public safety divisions, the employer rate for 2007 was 17.17%
The District's contributions to OPERS for the years ended December 31, 2007, 2006, and 2005, were $298,109, $284,100 and $248,529 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 13.85% of covered payroll. The portion of employer contributions, for all employers, allocated to health care was 5.0% from January 1 through June 30, 2007 and 6.0% from July 1 through December 31, 2007.

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, 2006.

Funding Method – The individual entry age 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 2006 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. In 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 5% for the next 8 years. In subsequent years (9 and beyond) health care costs were assumed to increase at 4% (the projected wage inflation rate).

D. OPEB is advance-funded on an actuarially determined basis. The following disclosures are required:

1. The Traditional Pension and Combined Plans had 374,979 active participants as of December 31, 2007. The number of active contributing participants for both plans used in the December 31, 2006, actuarial valuation was 362,130.

2. The rates in Section A, above, are the contractually required contribution rates for OPERS. The employer contributions that were used to fund post-employment benefits were $113,117 for 2007, $104,833 for 2006 and $91,707 for 2005.

9. POSTEMPLOYMENT BENEFITS (Continued)

3. The amount of $12.0 billion represents the actuarial value of OPERS' net assets available for OPEB at December 31, 2006.

4. Based on the actuarial cost method used, the Actuarial Valuation as of December 31, 2006, reported the actuarially accrued liability and the unfunded actuarially accrued liability of OPEB at $30.7 billion and $18.7 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. Member and employer contribution rates increased as of January 1, 2006, January 1, 2007 and January 1, 2008, which allowed additional funds to be allocated to the health care plan.

10. RISK MANAGEMENT

The SWRWD is exposed to various risks of loss to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. For the years 2007 and 2006 the SWRWD contracted for the following insurance coverage:

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

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

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

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

11. CHANGES IN ACCOUNTING PRINCIPLE

For the fiscal year ended 2007, the District implemented Governmental Accounting Standards Board (GASB) Statement No. 48, "Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues". GASB No. 48 addresses disclosures pertaining to future revenues that have been pledged or sold to provide financial statement users with information about which revenues will be available for other purposes and how long they will continue to be so. The implementation of this statement did not result in any prior year restatements or current year effect in the basic financial statements. For additional information please see Note 6.

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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, 2007 and December 31, 2006, in which we indicated the District implemented Governmental Accounting Standards Board Statement No. 48 and have issued our report thereon dated March 31, 2008. 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 a certain deficiency in internal control over financial reporting that we consider to be a significant deficiency.

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 2007-001 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.

We noted certain matters that we reported to the Government's management in a separate letter dated March 31, 2008.

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.*

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

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.

March 31, 2008

SOUTHWEST REGIONAL WATER DISTRICT
BUTLER COUNTY, OHIO

SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED DECEMBER 31, 2007

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

FINDING NUMBER 2007-001

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, OHIO

SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2007

Finding Number	Finding Summary	Fully Corrected?	Not Corrected; Partially Corrected: Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain:
2006-001	Control Deficiency for not having a comprehensive capital assets policies and procedures manual.	No	Reissued as Finding Number 2007-001

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 7, 2008