

Southwest Regional Water District
Butler County, Ohio

Regular Audit

January 1, 2008 through December 31, 2008
Fiscal Years Audited Under GAGAS: 2008



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, 2008 through December 31, 2008. 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 27, 2009

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SOUTHWEST REGIONAL WATER DISTRICT

Basic Financial Statements

For the Years Ended December 31, 2008 and December 31, 2007

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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, 2008 and December 31, 2007, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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 the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

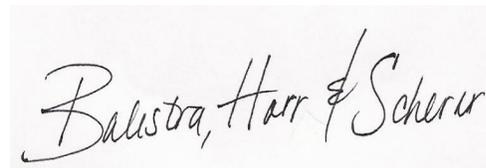
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the District, as of December 31, 2008 and December 31, 2007, and the respective changes in financial position and its cash flows, thereof 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 April 17, 2009, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Board of Directors
Southwest Regional Water District
Independent Auditor's Report

The Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information accounting principles generally accepted in the United States of America requires. We have applied certain limited procedures, consisting principally of inquiries of management regarding methods of measuring and presenting 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. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, and GASB Statement No. 50, *Pension Disclosures—an amendment of GASB Statements No. 25 and No. 27*.

A handwritten signature in cursive script that reads "Balestra, Harr & Scherer". The signature is written in dark ink on a light-colored background.

Balestra, Harr & Scherer, CPAs, Inc.
April 17, 2009

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, 2008 by \$30 million and \$30 million on December 31, 2007.
- The District’s net assets decreased \$153 thousand in 2008 and increased \$565 thousand in 2007.
- The District’s Operating Revenues decreased by \$381 thousand (5%) in 2008 and increased \$500 thousand (7%) in 2007 with Operating and Maintenance Expenses increasing \$107 thousand (2.0%) in 2008 and increasing \$459 thousand (9%) in 2007.

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.

SOUTHWEST REGIONAL WATER DISTRICT

**MANAGEMENT DISCUSSION AND ANALYSIS
(Unaudited)**

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

	2008	2007	Change Amount	%
Current and Other Assets	\$ 9,500,258	\$ 10,502,140	\$(1,001,882)	-10%
Capital Assets	<u>42,850,863</u>	<u>42,661,427</u>	<u>189,436</u>	0%
Total Assets	<u>52,351,121</u>	<u>53,163,567</u>	<u>(812,446)</u>	-2%
Long Term Liabilities	18,134,238	19,573,982	(1,439,744)	-7%
Other Liabilities	<u>3,937,361</u>	<u>3,157,406</u>	<u>779,955</u>	25%
Total Liabilities	<u>22,071,599</u>	<u>22,731,388</u>	<u>(659,789)</u>	-3%
Net Assets				
Invested in Capital, Net of Debt	21,448,985	21,717,467	(268,482)	-1%
Restricted	2,426,781	2,463,738	(36,957)	-2%
Unrestricted	<u>6,403,756</u>	<u>6,250,974</u>	<u>152,782</u>	2%
Total Net Assets	<u>30,279,522</u>	<u>30,432,179</u>	<u>(152,657)</u>	-1%
	2007	2006	Change Amount	%
Current and Other Assets	10,502,140	10,310,846	191,294	2%
Capital Assets	<u>42,661,427</u>	<u>42,421,390</u>	<u>240,037</u>	1%
Total Assets	<u>53,163,567</u>	<u>52,732,236</u>	<u>431,331</u>	1%
Long Term Liabilities	19,573,982	20,857,064	(1,283,082)	-6%
Other Liabilities	<u>3,157,406</u>	<u>2,007,749</u>	<u>1,149,657</u>	57%
Total Liabilities	<u>22,731,388</u>	<u>22,864,813</u>	<u>(133,425)</u>	-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	<u>6,250,974</u>	<u>7,082,325</u>	<u>(831,351)</u>	-12%
Total Net Assets	<u>\$ 30,432,179</u>	<u>\$ 29,867,423</u>	<u>\$ 564,756</u>	2%

SOUTHWEST REGIONAL WATER DISTRICT

**MANAGEMENT DISCUSSION AND ANALYSIS
(Unaudited)**

NET ASSETS (Continued)

- The District’s Total Capital Assets increased \$189 thousand in 2008, primarily, after depreciation, from construction of a new water storage tank and completion of installations of the District’s Automated Meter Reading System
- The District’s Net Assets decreased \$153 thousand dollars in 2008. This decrease is a result of lower revenues and increases in operating expenses.
- The District incurred no new long term debt in 2008, but did issue \$1.9 million in Bond Anticipation Notes (BAN) for construction projects during the year.

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				
	2008	2007	Change Amount	%
Operating Revenues	\$ 7,264,368	\$ 7,646,154	\$ (381,786)	-5.0%
Total Revenues	<u>7,264,368</u>	<u>7,646,154</u>	<u>(381,786)</u>	<u>-5.0%</u>
Operating Expenses	4,473,958	4,260,040	213,918	5.0%
Maintenance Expenses	946,206	1,053,086	(106,880)	-10.1%
Depreciation Expenses	<u>1,599,841</u>	<u>1,583,763</u>	<u>16,078</u>	<u>1.0%</u>
Total Expenses	<u>7,020,005</u>	<u>6,896,889</u>	<u>123,116</u>	<u>1.8%</u>
Operating Income	244,363	749,265	(504,902)	-67.4%
Non-Operating Revenues	660,903	815,047	(154,144)	-18.9%
Non-Operating Expenses	(1,065,865)	(1,165,400)	99,535	-8.5%
Capital Contributions	<u>7,942</u>	<u>165,844</u>	<u>(157,902)</u>	<u>-95.2%</u>
Change in Net Assets	<u>(152,657)</u>	<u>564,756</u>	<u>(717,413)</u>	<u>-127.0%</u>
	2007	2006	Change Amount	%
Operating Revenues	<u>7,646,154</u>	<u>7,146,546</u>	<u>499,608</u>	<u>7.0%</u>
Total Revenues	<u>7,646,154</u>	<u>7,146,546</u>	<u>499,608</u>	<u>7.0%</u>
Operating Expenses	4,260,040	4,026,672	233,368	5.8%
Maintenance Expenses	1,053,086	827,223	225,863	27.3%

SOUTHWEST REGIONAL WATER DISTRICT

**MANAGEMENT DISCUSSION AND ANALYSIS
(Unaudited)**

Table 2 continued

Depreciation Expenses	1,583,763	1,492,131	91,632	6.1%
Total Expenses	<u>6,896,889</u>	<u>6,346,026</u>	<u>550,863</u>	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	<u>165,844</u>	<u>324,215</u>	<u>(158,371)</u>	-48.8%
Change in Net Assets	<u>\$ 564,756</u>	<u>\$ 658,587</u>	<u>\$ (93,831)</u>	-14.2%

STATEMENT OF REVENUES & EXPENSES (CHANGES IN NET ASSETS CONTINUED)

- Total Operating Revenues decreased \$382 thousand (-5%) in 2008. While metered water sales remain relatively stable, the sales of new taps decreased by \$317 thousand. Grant monies received for capital improvement projects decreased \$127 thousand and non-exchange revenues (primarily watermains and appurtenances contributed by developers) decreased \$158 thousand. Total Operating Revenues increased \$499.6 thousand (7%) in 2007, primarily from increases in metered water sales.
- Operations and Maintenance costs, excluding depreciation, increased \$107 thousand (2%) in 2008. A \$214 thousand (5%) increase in Operating Expenses was somewhat offset by a \$107 thousand decrease (-10%) in Maintenance Expenses. Operations and Maintenance Expenses, excluding depreciation, increased 9% (459 thousand dollars) in 2007. Chemical costs, fuel costs and employee health care costs contributed too much of these increases.
- The total change in the change in the net assets (net retained earnings) in 2008 decreased \$777 thousand from 2007, compared to a decrease of \$93 thousand in 2007 vs. 2006.

CAPITAL ASSETS

The District had \$63 million invested in Capital Assets (before depreciation) at the end of 2008, as shown in Table 3. This amount is an increase of \$1.7 million (3%) from the previous year. In 2007 the District had \$61.3 million invested in Capital Assets (before depreciation), an increase of \$1.8 million from 2006.

TABLE 3

			Change	
	2008	2007	Amount	%
Land	\$ 234,806	\$ 234,806	\$ -	0.0%
Structures	2,354,767	2,354,767	-	0.0%
Distribution System	56,076,125	54,624,911	1,451,214	2.66%
Office Furniture & Equipment	579,671	571,946	7,725	1.4%
Vehicles	870,747	927,487	(56,740)	-6.1%
SCADA/ Tank Monitoring System	522,147	522,147	-	0.0%
Misc. Plant & Repair Equipment	145,623	145,623	-	0.0%
Laboratory Equipment	23,238	23,238	-	0.0%

SOUTHWEST REGIONAL WATER DISTRICT

**MANAGEMENT DISCUSSION AND ANALYSIS
(Unaudited)**

**TABLE 3
(Continued)**

Construction in Progress	2,223,531	1,946,312	277,219	14.2%
Totals before Depreciation	63,030,655	61,351,237	1,679,418	2.7%
Accumulated Depreciation	(20,179,792)	(18,689,810)	(1,489,982)	8.0%
Total Capital Assets	\$ 42,850,863	\$ 42,661,427	\$ 189,436	0.4%
	2007	2006	Change Amount	%
Land	\$ 234,806	\$ 234,806	\$ -	0.0%
Structures	2,354,767	2,285,461	69,306	3.0%
Distribution System	54,624,911	52,075,805	2,549,106	4.9%
SCADA/Tank Monitoring Equipment	522,147	282,640	239,507	84.7%
Vehicles	927,487	900,818	26,669	3.0%
Laboratory Equipment	23,238	23,238	-	0.0%
Office Furniture and Equipment	571,946	519,813	52,133	10.0%
Misc. Plant & Repair Equipment	145,623	145,623	-	0.0%
Construction in Progress	1,946,312	3,059,233	(1,112,921)	-36.4%
Totals before Depreciation	61,351,237	59,527,437	1,823,800	3.1%
Accumulated Depreciation	(18,689,810)	(17,106,047)	(1,583,763)	9.3%
Total Capital Assets	\$ 42,661,427	\$ 42,421,390	\$ 240,037	0.6%

- The net increase in Total Capital Assets (after depreciation) in 2008 was \$189 thousand. The District's Automated Meter Reading System, a new tank, construction of new watermain contributed to this net increase. In 2007 the net increase (after depreciation) was \$240 thousand primarily due to Booster Station and North Treatment Plant improvements along with new watermain and new water service installations.

DEBT

Table 4 summarizes the District's long term debt. The District issues long term debt to finance much of its major construction projects. 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

	2008	2007	Change Amount	%
REVENUE BONDS				
2003 Revenue Bonds	\$ 12,728,082	\$ 13,816,383	\$ (1,088,301)	-8%
Rural Development Bonds	2,550,699	2,608,139	(57,440)	-2%
Total Revenue Bonds	15,278,781	16,424,522	(1,145,741)	-7%
Special Assessment Bonds	\$ 5,131,000	\$ 5,473,000	\$ (342,000)	-6%

SOUTHWEST REGIONAL WATER DISTRICT

MANAGEMENT DISCUSSION AND ANALYSIS
(Unaudited)

TABLE 4
(Continued)

Ohio Water & Sewer Rotary Commission	\$ 62,441	\$ 62,441	\$ -	0%
Long Term Debt	20,472,222	21,959,963	(1,487,741)	-7%
Less				
Reacquisition Costs 1995 Revenue Bonds -				
Advance Refunding	(937,344)	(1,016,002)	(78,658)	-8%
Current Maturities	(1,500,101)	(1,469,440)	29,661	2%
Net Total Long Term Debt	\$ 18,034,777	\$ 19,474,521	\$ (1,439,744)	-7%

	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%
Long Term Debt	21,959,963	23,291,260	(1,331,297)	-6%
Less				
Reacquisition Costs 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%

- The District issued no new long term debt in 2008. In 2007, the District issued \$126 thousand in Special Assessment debt to finance water improvement projects.
- The District issued a short term Bond Anticipation Note (BAN) in the amount of \$1,867,000 to renew the BAN issued in 2007 for \$985 thousand plus interest while obtaining additional funds of approximately \$800 thousand for the construction of a new water tank and various water tank improvements.
- 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.

SOUTHWEST REGIONAL WATER DISTRICT

**MANAGEMENT DISCUSSION AND ANALYSIS
(Unaudited)**

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			
	2008	2007	2006
Operating Revenues	\$ 7,264,368	\$ 7,646,154	\$ 7,146,546
Non-Operating Revenue	400,482	427,334	400,129
Total Revenues	<u>7,664,850</u>	<u>8,073,488</u>	<u>7,546,675</u>
Less Operations & Maintenance Expenses	<u>(5,420,164)</u>	<u>(5,313,126)</u>	<u>(4,853,895)</u>
Total Revenues Available for Debt	2,244,686	2,760,362	2,692,780
Revenue Bond Debt Service - 1995 & 2003	1,619,615	1,626,243	1,621,843
Revenue Bond Debt Service - Rural Development/ Special Assessment-Deficit Collections	<u>269,321</u>	<u>269,321</u>	<u>269,321</u>
Total Debt Service Requirements	\$ 1,888,936	\$ 1,895,564	\$ 1,891,164
Coverage Ratio – Revenue Bond Debt Service – 1995 & 2003	1.39	1.70	1.66
Coverage Ratio – All Debt Combined	1.19	1.46	1.42
Required Coverage Ratio			
Revenue Bonds - 2003	1.20	1.20	1.20
Rural Development	1.00	1.00	1.00

Does not include grant revenues or 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 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 deferrals are paid from the District Revenues.

SOUTHWEST REGIONAL WATER DISTRICT

MANAGEMENT DISCUSSION AND ANALYSIS
(Unaudited)

CASH

Cash and cash equivalents on December 31, 2008 and December 31, 2007 were \$3.2 million and \$3.6 million respectively. \$2.4 million of these funds are restricted for specific use at the end of each year. 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.

ECONOMIC FACTORS

The District has projected an increase of \$592 thousand in net assets for the year ending December 31, 2009. Additional revenues from customer user rates and connection fees, with cost containment and reductions of operating and maintenance expenses will contribute to this increase. Approval has been received from the Ohio Public Works Commission for \$700 thousand in Issue II grants for treatment plant and watermain improvements to begin in 2009. Customer growth and capital contributions from developers are expected to remain stable or slightly decline as a result of a continued slowing of the 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, 2008 and 2007

ASSETS	2008	2007
CURRENT ASSETS		
Cash and cash equivalents	\$ 817,582	\$ 1,116,575
Accounts receivable (net allowance for doubtful accounts of \$2,921 for 2008 and \$30,475 for 2007)	898,138	857,130
Special assessments receivable - current portion	359,000	332,000
Accrued interest receivable	121,936	147,453
Inventory	551,645	855,218
Prepaid expenses	55,718	68,825
TOTAL CURRENT ASSETS	2,804,019	3,377,201
NONCURRENT ASSETS		
Restricted Assets:		
Equity in pooled cash and cash equivalents	2,426,781	2,463,738
TOTAL RESTRICTED ASSETS	2,426,781	2,463,738
Capital Assets:		
Water, production, treatment and distribution systems	56,076,125	54,624,911
Building, office furniture and equipment	4,496,193	4,545,208
Total depreciable capital assets	60,572,318	59,170,119
Less: Accumulated depreciation	(20,179,792)	(18,689,810)
Net depreciable capital assets	40,392,526	40,480,309
Land	234,806	234,806
Construction in progress	2,223,531	1,946,312
NET CAPITAL ASSETS	42,850,863	42,661,427
Other Assets:		
Special assessments receivable - non current	3,958,915	4,327,916
Deferred Charges	310,543	333,285
TOTAL OTHER ASSETS	4,269,458	4,661,201
TOTAL ASSETS	\$ 52,351,121	\$ 53,163,567

(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, 2008 and 2007

	<u>2008</u>	<u>2007</u>
LIABILITIES		
CURRENT LIABILITIES		
Current maturities of long term obligations	\$ 1,500,101	\$ 1,469,440
Accounts payable	184,326	165,591
Notes payable	1,867,000	985,000
Accrued liabilities	127,155	117,100
Tenant deposits	57,837	46,690
Accrued interest	200,942	373,585
TOTAL CURRENT LIABILITIES	<u>3,937,361</u>	<u>3,157,406</u>
LONG TERM LIABILITIES		
Deferred revenue	99,461	99,461
Long term obligations	18,034,777	19,474,521
TOTAL LONG TERM LIABILITIES	<u>18,134,238</u>	<u>19,573,982</u>
TOTAL LIABILITIES	22,071,599	22,731,388
NET ASSETS		
Invested in capital assets, net of related debt	21,448,985	21,717,467
Restricted for debt service	2,426,781	2,463,738
Unrestricted	6,403,756	6,250,974
TOTAL NET ASSETS	<u>\$ 30,279,522</u>	<u>\$ 30,432,179</u>

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, 2008 and 2007

	<u>2008</u>	<u>2007</u>
OPERATING REVENUES		
Metered Water Sales to customers	\$ 6,600,524	\$ 6,664,416
Sales of New taps	363,269	680,702
Penalties	177,752	180,933
Miscellaneous	122,823	120,103
TOTAL OPERATING REVENUES	<u>7,264,368</u>	<u>7,646,154</u>
OPERATING EXPENSES		
Operations	4,473,958	4,260,040
Maintenance	946,206	1,053,086
Depreciation	1,599,841	1,583,763
TOTAL OPERATING EXPENSES	<u>7,020,005</u>	<u>6,896,889</u>
OPERATING INCOME	<u>244,363</u>	<u>749,265</u>
NONOPERATING REVENUES (EXPENSES)		
Intergovernmental	260,421	387,213
Interest Income	289,454	425,969
Interest Expense	(1,065,865)	(1,165,400)
Other non-operating revenue (expense)	111,028	1,865
Net Other Income (Expense)	<u>(404,962)</u>	<u>(350,353)</u>
CHANGES IN NET ASSETS BEFORE CAPITAL CONTRIBUTIONS	<u>(160,599)</u>	<u>398,912</u>
Capital Contributions-owner/developer	7,942	165,844
Total Capital Contributions	<u>7,942</u>	<u>165,844</u>
CHANGE IN NET ASSETS	<u>(152,657)</u>	<u>564,756</u>
NET ASSETS, BEGINNING OF YEAR	<u>30,432,179</u>	<u>29,867,423</u>
NET ASSETS, END OF YEAR	<u>\$ 30,279,522</u>	<u>\$ 30,432,179</u>

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, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Cash Flows From Operating Activities:		
Receipts from Customers	\$ 7,100,537	\$7,533,350
Receipts from others	122,823	120,103
Payments to Suppliers and Vendors	(1,936,227)	(2,537,418)
Payments to Employees	(3,104,579)	(3,025,389)
Net Cash Provided by Operating Activities	<u>2,182,554</u>	<u>2,090,646</u>
Cash Flows From Capital and related financing Acqtivities:		
Proceeds from capital grants	260,421	387,213
Acquisition & Construction of capital assets	(1,781,335)	(1,693,478)
Payments on Borrowings	(2,394,083)	(1,503,587)
Proceeds from Debt Issuance	1,867,000	1,111,000
Collections on Special Assessments	342,001	330,000
Interest Paid	(1,238,508)	(1,095,831)
Net Cash Used By Capital Financing Activities	<u>(2,944,504)</u>	<u>(2,464,683)</u>
Cash Flows From Noncapital Financing Activities:		
Other nonoperating revenues	111,029	-
Net Cash Provided By Noncapital Financing Activities	<u>111,029</u>	<u>-</u>
Cash Flows From Investing Acqtivities:		
Interest Received	314,971	426,056
Net Cash Provided By Capital Financing Activities	<u>314,971</u>	<u>426,056</u>
Net increase/(decrease) in cash and cash equivalents	(335,950)	52,019
Cash and cash equivalents, January 1,	<u>3,580,313</u>	<u>3,528,294</u>
Cash and cash equivalents, December 31,	<u>\$ 3,244,363</u>	<u>\$3,580,313</u>
Restricted Cash	\$ 2,426,781	\$2,463,738
Unrestricted Cash	817,582	1,116,575
Total Cash	<u>\$ 3,244,363</u>	<u>\$3,580,313</u>
Reconciliation of Change in Net Assets to Net Cash Provided by Operating Activities:		
Operating Income	\$ 244,363	\$ 749,265
Adjustments to reconcile net income to net cash from operating activities:		
Depreciation Expense	1,599,841	1,583,763
(Increase) Decrease in Accounts Receivable	(41,008)	7,299
(Increase) Decrease in Prepaid Items	13,107	(34,710)
(Increase) Decrease in Materials and Supplies Inventory	303,572	(279,854)
Deferred Charges	22,742	(46,052)
Increase in Accounts Payable	18,735	58,670
Increase in Accrued Liabilities	10,055	47,671
Increase in Tenant Deposits	11,147	4,594
Total Adjustments	<u>1,938,191</u>	<u>1,341,381</u>
Net Cash Provided by Operating Activities	<u>\$ 2,182,554</u>	<u>\$2,090,646</u>

Developers dedicated water lines with total costs of \$7,942 and \$165,842 in 2008 and 2007, 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.

**SOUTHWEST REGIONAL WATER DISTRICT
BUTLER COUNTY, OH**

NOTES TO FINANCIAL STATEMENTS

December 31, 2008

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 6119.01 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 2008. 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.

**SOUTHWEST REGIONAL WATER DISTRICT
BUTLER COUNTY, OH**

NOTES TO FINANCIAL STATEMENTS

December 31, 2008

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 statement of net assets because the 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 the 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 capital asset threshold of \$1,500.

7. Provision for Income Tax

SWRWD operates as a government entity which operates a 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 2008 and 2007, investments 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.

**SOUTHWEST REGIONAL WATER DISTRICT
BUTLER COUNTY, OH**

NOTES TO FINANCIAL STATEMENTS

December 31, 2008

3. CASH AND INVESTMENTS (continued)

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;
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, 2008 was \$2,960,668 and the bank balance was \$2,977,559. Of the bank balance:

1. \$572,283 was covered by federal depository insurance; and
2. \$202,995 was collateralized third party trustee in single institution collateral pools, securing all public funds on deposit with specific depository institutions.
3. \$2,202,281 was deposited in trust accounts in accordance with the District's Revenue and Special Assessment Bonds Trust Agreements.

**SOUTHWEST REGIONAL WATER DISTRICT
BUTLER COUNTY, OH**

NOTES TO FINANCIAL STATEMENTS

December 31, 2008

3. CASH AND INVESTMENTS (continued)

Investments – As of December 31, 2008 the District had the following investments:

	<u>Carrying and Fair Value</u>	<u>Maturing in less than 1 year</u>
Star Ohio	\$283,695	\$283,695

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.

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:

	<u>Balance at 12/31/2007</u>	<u>Additions</u>	<u>Retirements Disposals</u>	<u>Balance at 12/31/2008</u>
Non-Depreciable:				
Land	\$ 234,806	\$ -	\$ -	\$ 234,806
Construction in Progress	1,946,312	1,761,105	1,483,886	2,223,531
Total Non-Depreciable	2,181,118	1,761,105	1,483,886	2,458,337
Depreciable:				
Distribution System	54,624,911	1,451,214	-	56,076,125
Structures & Improvements	2,354,767	-	-	2,354,767
Office Furniture & Equipment	571,946	7,725	-	579,671
Vehicles	927,487	60,094	116,834	870,747
SCADA System/Tank Monitoring Equipment	522,147	-	-	522,147
Misc. Plant & Repair Equipment	145,623	-	-	145,623
Laboratory Equipment	23,238	-	-	23,238
Totals Depreciable	59,170,119	1,519,033	116,834	60,572,318

**SOUTHWEST REGIONAL WATER DISTRICT
BUTLER COUNTY, OH**

NOTES TO FINANCIAL STATEMENTS

December 31, 2008

4. CAPITAL ASSETS (continued)

Totals at Historical Costs	61,351,237	3,280,138	1,600,720	63,030,655
Accumulated Depreciation				
Distribution System	(16,339,423)	(1,406,138)	-	(17,745,561)
Structures & Improvements	(808,025)	(73,070)	-	(881,095)
SCADA System/Tank Monitoring Equipment	(228,648)	(13,104)	-	(241,752)
Vehicles	(770,638)	(64,978)	109,859	(725,757)
Laboratory Equipment	(23,238)	-	-	(23,238)
Misc. Plant & Repair Equipment	(144,374)	(1,352)	-	(145,726)
Office Furniture & Equipment	(375,464)	(41,199)	-	(416,663)
Total Accumulated Depreciation	<u>(18,689,810)</u>	<u>(1,599,841)</u>	<u>109,859</u>	<u>(20,179,792)</u>
Capital Assets, Net	<u>\$ 42,661,427</u>	<u>\$ 1,680,297</u>	<u>\$ 1,490,861</u>	<u>\$ 42,850,863</u>

* Certain reclassifications were made to beginning accumulated depreciation figures.

5. SHORT TERM OBLIGATIONS

During 2008, the District issued \$1,867,000 in Bond Anticipation Note(s) to temporarily finance construction of public water improvements. The note(s) has an interest rate of 3.25% and will mature on March 11, 2009.

Description	12/31/2007 Balance	Issued 2008	Payments in 2008	12/31/2008 Balance	Due Within One Year
Bond Anticipation Note	\$ 985,000	1,867,000	985,000	1,867,000	1,867,000

6. LONG TERM OBLIGATIONS

Long-term obligations consist of:

Description	12/31/2007 Balance	Issued in 2008	Payments in 2008	12/31/2008 Balance	Due Within One Year
USDA, Rural Development Bonds	\$2,608,139	\$ -	\$57,440	\$2,550,699	\$61,101
Special Assessment Water Line Extension Bonds - Series 1994	70,000	-	10,000	60,000	10,000
Special Assessment Water Line Extension Bonds - Series 1996	580,000	-	50,000	530,000	55,000
Special Assessment Water Line Extension Bonds - Series 1997	62,000	-	5,000	57,000	5,000

**SOUTHWEST REGIONAL WATER DISTRICT
BUTLER COUNTY, OH**

NOTES TO FINANCIAL STATEMENTS

December 31, 2008

6. LONG TERM

OBLIGATIONS (continued)

Special Assessment Water Line Extension Bonds - Series 1999	3,555,000	-	220,000	3,335,000	230,000
Special Assessment Water Line Extension Bonds - Series 2000	460,000	-	25,000	435,000	25,000
Special Assessment Water Line Extension Bonds - Series 2002	620,000	-	30,000	590,000	30,000
Special Assessment Water Line Extension Bonds - Series 2007	126,000	-	2,000	124,000	4,000
Revenue Bonds Series 2003	13,816,383	-	1,088,301	12,728,082	1,080,000
Advance note payable to State of Ohio	62,441	-	-	62,441	-
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total before Premium and deceased interest	21,959,963	-	1,487,741	20,472,222	1,500,101
Series 2003 - 1995 Bond Refunding Premium and deceased interest	(1,016,002)	-	(78,658)	(937,344)	(78,358)
Totals	<u>\$ 20,943,961</u>	<u>\$ -</u>	<u>\$1,409,083</u>	<u>\$19,534,878</u>	<u>\$1,421,743</u>

As of December 31, 2008, the maturities of the principal amount of long-term debt for the five years ending

<u>Year</u>	<u>Principal</u>	<u>Interest</u>
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	1,534,237	732,396
2014-2018	8,277,107	2,504,395
2019-2023	3,476,804	686,808
2024-2028	911,903	246,619
2029-2030	210,303	13,406
	<hr/>	<hr/>
	20,254,140	7,724,442
1995 Bond Refunding Deceased interest	(937,344)	
2003 Bond Issue Premium	218,082	
Total	<u>\$ 19,534,878</u>	<u>\$ 7,724,442</u>

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%.

**SOUTHWEST REGIONAL WATER DISTRICT
BUTLER COUNTY, OH**

NOTES TO FINANCIAL STATEMENTS

December 31, 2008

6. LONG TERM OBLIGATIONS (continued)

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

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

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

The District has pledged future water customer revenues, net of specific operating expenses, to repay \$16,960,000 in water revenue bonds issued in 2003. Proceeds from the bonds advance refunded certain USDA Rural Development Bonds and defeased certain maturities of the Series 1995 Revenue Bonds. 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 \$16,215,345. Principal and interest paid for the current year and total customer net revenues were \$1,619,615 and \$2,244,686 respectively.

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 specific operating expenses, to repay \$3,105,677 in water revenue bonds issued in 1994. Proceeds from the bonds refinanced Rural Development mortgage notes. 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 \$4,684,470. Principal and interest paid for the current year and total customer net revenues were \$223,708 and \$2,244,686 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.

**SOUTHWEST REGIONAL WATER DISTRICT
BUTLER COUNTY, OH**

NOTES TO FINANCIAL STATEMENTS

December 31, 2008

6. LONG TERM OBLIGATIONS (continued)

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

During 2002, \$765,000 of Water Line Extension Bonds, Special Assessment Series 2002, dated September 1, 2002 were issued. Payment of the bonds will be through property tax assessments of property owners benefiting from the water services provided. Payment of the bonds will be through the year 2022. The bonds mature at varying amounts and require interest payments at rates varying between 1.75% for 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 collected through property tax billing. Included in the balances at December 31, 2008, 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, 2008 are as follows:

	Total Assessed	Prepaid Assessments	County Auditor and Deferred Assessments Paid	% Collected
1994 Assessments	\$ 227,778	\$ -	\$ 90,000	40%
1996 Assessments	889,478	-	465,000	52%
1997 Assessments	94,579	-	41,000	43%
1999 Assessments	4,322,013	13,892	1,665,000	39%
2000 Assessments	579,383	12,144	175,000	30%
2002 Assessments	736,635	8,960	175,000	24%
2007 Assessments	116,045	-	\$ 2,000	2%
 Total Receivable	 <u>\$ 6,965,911</u>	 <u>\$ 34,996</u>	 <u>\$ 2,613,000</u>	 38%

**SOUTHWEST REGIONAL WATER DISTRICT
BUTLER COUNTY, OH**

NOTES TO FINANCIAL STATEMENTS

December 31, 2008

8. DEFINED BENEFIT RETIREMENT PLAN

Ohio Public Employees Retirement System

- A. The Ohio Public Employees Retirement System (OPERS) 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.
 - 3) The Combined Plan (CO) – a cost-sharing multiple-employer defined benefit pension plan. Under the Combined Plan, OPERS invests employer contributions to provide a formula retirement benefit similar in nature to the Traditional Pension 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, and survivor and death benefits and annual cost-of-living adjustments to qualifying members of the Traditional Pension and Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits.
- C. Authority to establish and amend benefits is provided in Chapter 145 of the Ohio Revised Code.
- D. OPERS issues a stand-alone financial report. Interested parties may obtain a copy by writing to OPERS, Attention: Finance Director, 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 2008, member and employer contribution rates were consistent across all three plans.

The member contribution rates were 10.0%, 9.5% and 9.0% for 2008, 2007, and 2006, respectively, for the District.

The employer contribution rates were 14.0%, 13.85%, and 13.70% of covered payroll for 2008, 2007, and 2006, respectively, for the District.

The District's contributions to OPERS for the years ended December 31, 2008, 2007, and 2006 were \$315,566, \$298,109, and \$284,100, respectively, which were equal to the required contributions for those years.

**SOUTHWEST REGIONAL WATER DISTRICT
BUTLER COUNTY, OH**

NOTES TO FINANCIAL STATEMENTS

December 31, 2008

9. POSTEMPLOYMENT BENEFITS

Ohio Public Employees Retirement System

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

OPERS maintains a cost-sharing multiple employer defined benefit post-employment healthcare plan, which includes a medical plan, prescription drug program, and Medicare Part B premium reimbursement, to qualifying members of both the TP and the CO Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits, including post-employment health care coverage.

In order to qualify for post-employment health care coverage, age and service retirees under the Traditional Pension and Combined Plans must have 10 or more years of qualifying Ohio service credit. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available. The health care coverage provided by OPERS meets the definition of an Other Post-Employment Benefit (OPEB) as described in GASB Statement No. 45.

The Ohio Revised Code permits, but does not mandate, OPERS to provide OPEB benefits to its eligible members and beneficiaries. Authority to establish and amend benefits is provided in Chapter 145 of the Ohio Revised Code.

OPERS issues a stand-alone financial report. Interest parties may obtain a copy by writing OPERS, Attention: Finance Director, 277 East Town Street, Columbus, Ohio 43215-4642, or by calling 614-222-5601 or 800-222-7377.

- B. The Ohio Revised Code provides the statutory authority requiring public employers to fund post-retirement health care through their contributions to OPERS. A portion of each employer's contribution to OPERS is set aside for the funding of post retirement health care benefits.

Employer's contributions are expressed as a percentage of the covered payroll of active members. In 2008, the District contributed at 7.0% of covered payroll. The Ohio Revised Code currently limits the employer contribution rate not to exceed 14.0% of covered payroll. Active members do not make contributions to the OPEB Plan.

OPERS' Post Employment Health Care plan was established under, and is administrated in accordance with, Internal Revenue Code 401(h). Each year, the OPERS Retirement Board determines the portion of the employer contribution rate that will be set aside for funding of post employment health care benefits. For 2008, the employer contributions allocated to the health care plan was 7.0% of covered payroll. For 2007, these percentages were 5.0% for January through June 2007 and 6.0% for July through December 2007. For 2006, this percentage was 4.5%. The OPERS Retirement Board is also authorized to establish rules for the payment of a portion of the health care benefits provided, by the retiree or their surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected.

- C. The employer contributions that were used to fund post-employment benefits were \$153,284 for 2008, \$113,117 for 2007, and \$104,833 for 2006.

**SOUTHWEST REGIONAL WATER DISTRICT
BUTLER COUNTY, OH**

NOTES TO FINANCIAL STATEMENTS

December 31, 2008

9. POSTEMPLOYMENT BENEFITS (continued)

- D. The Health Care Preservation Plan (HCPP) adopted by the OPERS Retirement Board on September 9, 2004, was 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 2008 and 2007 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 PRINCIPLES

For the fiscal year 2008, the District implemented GASB Statement No. 50, "Pension Disclosures—an amendment of GASB Statements No. 25 and No. 27," and GASB Statement No. 45, "Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions." GASB Statement No. 50 more closely aligns the financial reporting requirements for pensions with those for other postemployment benefits (OPEB) and, in doing so, enhances information disclosed in the notes to financial statements or presented as required supplementary information (RSI) by pension plans and by employers that provide pension benefits. GASB Statement No. 45 establishes standards for the measurement, recognition, and display of OPEB expense/expenditures and related liabilities (assets), note disclosures, and, if applicable, required supplementary information (RSI) in the financial reports of state and local governmental employers. The application of these new standards had no effect on the financial statements, nor did their implementation require a restatement of prior year balances.

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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 (the District), Butler County, as of and for the year ended December 31, 2008, which collectively comprise the District's basic financial statements, and have issued our report thereon dated April 17, 2009 in which we noted that the District implemented Governmental Accounting Standards Board Statement No. 45 and GASB Statement No. 50. 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 the Comptroller General of the United States' *Government Auditing Standards*.

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 opinions on the financial statements, but not to opine on the effectiveness of the District's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the District's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in 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 District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with its applicable accounting basis, such that there is more than a remote likelihood that the District's internal control will not prevent or detect a more-than-inconsequential financial statement misstatement.

A material weakness is a significant deficiency, or combination of significant deficiencies, resulting in more than a remote likelihood that the District's internal control will not prevent or detect a material financial statement misstatement.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all internal control deficiencies that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider material weaknesses, as defined above.

We noted a certain other matters that we reported to the District's management in a separate letter dated April 17, 2009.

Compliance and Other Matters

As part of reasonably assuring whether the District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect 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 an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

We intend this report solely for the information and use of the Board of Directors and management. We intend it for no one other than these specified parties.



Balestra, Harr & Scherer, CPAs, Inc.

April 17, 2009

**SOUTHWEST REGIONAL WATER DISTRICT
BUTLER COUNTY, OHIO**

**SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2008**

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



Mary Taylor, CPA
Auditor of State

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
JUNE 9, 2009**