

**SOUTHWEST REGIONAL WATER DISTRICT
BUTLER COUNTY
Regular Audit
For the Years Ended December 31, 2013 and 2012**

Perry & Associates
Certified Public Accountants, A.C.



Dave Yost • Auditor of State

Board of Trustees
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 Perry & Associates, Certified Public Accountants, A.C., for the audit period January 1, 2013 through December 31, 2013. 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.

A handwritten signature in black ink that reads "Dave Yost".

Dave Yost
Auditor of State

August 5, 2014

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**SOUTHWEST REGIONAL WATER DISTRICT
BUTLER COUNTY**

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INDEPENDENT AUDITOR'S REPORT

June 30, 2014

Southwest Regional Water District
Butler County
3640 Old Oxford Road
Hamilton, Ohio 45013

To the Board of Trustees:

Report on the Financial Statements

We have audited the accompanying financial statements of the **Southwest Regional Water District**, Butler County, Ohio (the District), as of and for the years ended December 31, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for preparing and fairly presenting these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes designing, implementing, and maintaining internal control relevant to preparing and fairly presenting financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to opine on these financial statements based on our audits. We audited in accordance with auditing standards generally accepted in the United States of America and the financial audit standards in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require us to plan and perform the audit to reasonably assure the financial statements are free from material misstatement.

An audit requires obtaining evidence about financial statement amounts and disclosures. The procedures selected depend on our judgment, including assessing the risks of material financial statement misstatement, whether due to fraud or error. In assessing those risks, we consider internal control relevant to the District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not to the extent needed to opine on the effectiveness of the District's internal control. Accordingly, we express no opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of the overall financial statement presentation.

We believe the audit evidence we obtained is sufficient and appropriate to support our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Southwest Regional Water District, Butler County as of December 31, 2013 and 2012, and the changes in its financial position and its cash flows for the years then ended in accordance with the accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require this presentation to include *Management's discussion and analysis* listed in the table of contents, to supplement the basic financial statements. Although this information is not part of the basic financial statements, the Governmental Accounting Standards Board considers it essential for placing the basic financial statements in an appropriate operational, economic, or historical context. We applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, consisting of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, to the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not opine or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to opine or provide any other assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 30, 2014, 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. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.



Perry and Associates
Certified Public Accountants, A.C.
Marietta, Ohio



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 total liabilities on December 31, 2013 by \$33.95 million and \$32.86 million on December 31, 2012.
- The District’s net position increased \$1,089.48 thousand in 2013 and increased \$741.86 thousand in 2012.
- The District’s Operating Revenues decreased by \$376.74 thousand (-4.6%) in 2013 and increased by \$441.64 thousand (5.7%) in 2012, with Operating and Maintenance Expenses decreasing \$140.45 thousand (-2.84%) in 2013 and decreasing \$150.27 thousand (-2.95%) in 2012.

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 **Statements of Net Position** includes all of the District’s Assets and Liabilities. These statements provide 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 position (equity) is the difference between assets and liabilities.

The **Statements of Revenues, Expenses, and Changes in Net Position** 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 POSITION

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

TABLE 1

	2013	2012	Change Amount	%
Current and Other Assets	\$ 9,540,851	\$ 10,634,806	\$ (1,093,955)	-10.3%
Capital Assets	40,224,343	40,271,283	(46,940)	-0.1%
Total Assets	49,765,194	50,906,089	(1,140,895)	-2.2%
Deferred Outflows of Resources	219,697	298,179	(78,482)	-2.6%
Total Assets and Deferred Outflows of Resources	49,984,891	51,204,268	(1,219,377)	-2.4%
Long Term Liabilities	13,910,168	16,208,238	(2,298,070)	-14.2%
Other Liabilities	2,129,443	2,140,232	(10,789)	-0.5%
Total Liabilities	16,039,611	18,348,470	(2,308,859)	-12.6%
Net Investment in Capital Assets	24,703,413	22,468,269	2,235,144	9.9%
Restricted	1,873,470	2,548,470	(675,000)	-26.5%
Unrestricted	7,368,397	7,839,059	(470,662)	-6.0%
Total Net Position	\$ 33,945,280	\$ 32,855,798	\$ 1,089,482	3.3%

	2012	2011	Change Amount	%
Current and Other Assets	\$ 10,634,806	\$ 10,593,204	\$ 41,602	0.4%
Capital Assets	40,271,283	41,178,784	(907,501)	-2.2%
Total Assets	50,906,089	51,771,988	(865,899)	-1.7%
Deferred Outflows of Resources	298,179	328,605	(30,426)	-9.2%
Total Assets and Deferred Outflows of Resources	51,204,268	52,100,593	(896,325)	-1.7%
Long Term Liabilities	\$ 16,208,238	\$ 17,842,978	\$ (1,634,740)	-9.2%
Other Liabilities	2,140,232	2,143,673	(3,441)	-0.2%
Total Liabilities	18,348,470	19,986,651	(1,638,181)	-8.2%
Net Investment in Capital Assets	22,468,269	21,760,718	707,551	3.3%
Restricted	2,548,470	2,578,056	(29,586)	-1.1%
Unrestricted	7,839,059	7,775,168	63,891	0.8%
Total Net Position	\$ 32,855,798	\$ 32,113,942	\$ 741,856	2.3%

- The District's Net Position increased \$1,089.5 thousand dollars in 2013. The increase is a result of decreased Operating Expenses and increased grant monies received during the year. The District's Net

Position increased \$742 thousand dollars in 2012. This increase was mostly a result of decreased operating expenses and increased water revenue.

- The District incurred \$7,000,000 of new long term debt in 2013 to refund the 2003 bonds.
- The District incurred no new long term debt in 2012.

STATEMENT OF REVENUES & EXPENSES (CHANGES IN NET POSITION)

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

TABLE 2				
	2013	2012	Change Amount	%
Operating Revenues	\$ 7,788,591	\$ 8,165,334	\$ (376,743)	-4.6%
Total Revenues	7,788,591	8,165,334	(376,743)	-4.6%
Operations Expenses	4,152,100	4,087,533	64,567	1.6%
Maintenance Expenses	650,999	856,016	(205,017)	-24.0%
Depreciation Expenses	1,685,432	1,689,041	(3,609)	-0.2%
Total Expenses	6,488,531	6,632,590	(144,059)	-2.2%
Operating Income	1,300,060	1,532,744	(232,684)	-15.2%
Non-Operating Revenues	723,651	241,932	481,719	199.1%
Non-Operating Expenses	(934,229)	(1,032,820)	98,591	-9.5%
Change in Net Position	1,089,482	741,856	347,626	46.9%
Net Position, Beginning of Year	32,855,798	32,113,942	741,856	2.3%
Net Position, End Of Year	\$ 33,945,280	\$ 32,855,798	\$ 1,089,482	3.3%
	2012	2011	Change Amount	%
Operating Revenues	\$ 8,165,334	\$ 7,723,692	\$ 441,642	5.7%
Total Revenues	8,165,334	7,732,692	441,642	5.7%
Operations Expenses	4,087,533	4,048,049	39,484	1.0%
Maintenance Expenses	856,016	1,045,765	(189,749)	-18.1%
Depreciation Expenses	1,689,041	1,746,599	(57,558)	-3.3%
Total Expenses	6,632,590	6,840,413	(207,823)	-3.0%
Operating Income	1,532,744	892,279	640,465	71.8%
Non-Operating Revenues	241,932	518,645	(276,713)	-53.4%
Non-Operating Expenses	(1,032,820)	(1,073,801)	40,981	-3.8%
Capital Contributions	-	49,658	(49,658)	-100.0%
Change in Net Position	741,856	377,781	364,075	96.4%
Net Position, Beginning of Year	32,113,942	31,736,161	377,781	1.2%
Net Position, End Of Year	\$ 32,855,798	\$ 32,113,942	\$ 741,856	2.3%

- Total Operating Revenues decreased \$377 thousand (-4.6%) in 2013 as metered water sales decreased and new connection fees increased. Metered water sales and the sale of new taps increased \$442 thousand in 2012.
- Total Operating and Maintenance Expenses (excluding depreciation) decreased \$140.4 thousand (-2.84%) in 2013. In 2012, total Operating and Maintenance Expenses (excluding depreciation) decreased \$150.2 thousand (-2.95%) from 2011.
- The total change in net position (net retained earnings) in 2013 was an increase of \$1,089.5 thousand compared to an increase of \$741.9 thousand in 2012 and an increase of \$377.8 thousand in 2011.

CAPITAL ASSETS

The District had \$68.6 million invested in Capital Assets (before depreciation) at the end of 2013, \$67.0 million in 2012 and \$66.5 million in 2011, as shown in Table 3. This amount is an increase of \$1.6 million in 2013 from 2012 and \$560 thousand in 2012 from the previous year, 2011.

TABLE 3

	2013	2012 (Restated)	Change Amount	%
Land	\$ 234,806	\$ 234,806	\$ -	0.0%
Wells	978,346	978,346	-	0.0%
Booster Stations & Equip	3,612,652	3,603,380	9,272	0.2%
Treatment Plants	10,555,968	10,555,968	-	0.0%
Water Tanks & Standpipes	5,886,117	5,886,117	-	0.0%
Distribution System	26,989,563	26,989,563	-	0.0%
GIS System	274,245	274,245	-	0.0%
Metered Services	10,269,293	10,169,364	99,929	0.9%
Flush Hydrants	183,846	183,846	-	0.0%
6" Hydrants	1,410,443	1,410,443	-	0.0%
Structures & Improvements	2,456,695	2,448,667	8,028	0.3%
Office Furniture & Equipment	624,675	635,218	(10,543)	-1.6%
Transportation/Constr. Equip	1,055,047	951,992	103,055	10.8%
SCADA System	522,147	522,147	-	0.0%
Misc. Plant & Repair Equipment	175,602	175,602	-	0.0%
Laboratory Equipment	23,238	23,238	-	0.0%
Construction in Progress	3,372,401	1,991,353	1,381,048	69.3%
Totals before Depreciation	68,625,084	67,034,295	1,590,789	2.3%
Accumulated Depreciation	(28,400,741)	(26,763,012)	(1,637,729)	6.1%
Total Capital Assets	\$ 40,224,343	\$ 40,271,283	\$ (46,940)	-0.1%

	2012 (Restated)	2011	Change Amount	%
Land	\$ 234,806	\$ 234,806	\$ -	0.0%
Wells	978,346	978,346	-	0.0%
Booster Stations & Equip	3,603,380	3,586,427	16,953	0.4%
Treatment Plants	10,555,968	10,555,968	-	0.0%
Water Tanks & Standpipes	5,886,117	5,886,117	-	0.0%
Distribution System	26,989,563	26,989,563	-	0.4%
GIS System	274,245	274,245	-	0.0%
Metered Services	10,169,364	10,074,502	94,862	1.0%
Flush Hydrants	183,846	183,846	-	0.0%
6" Hydrants	1,410,443	1,410,443	-	0.0%
Structures & Improvements	2,448,667	2,448,667	-	3.9%
Office Furniture & Equipment	635,218	655,283	(20,065)	5.3%
Transportation/Constr. Equip	951,992	992,363	(40,371)	-4.1%
SCADA System	522,147	522,147	-	0.0%
Misc. Plant & Repair Equipment	175,602	175,602	-	0.0%
Laboratory Equipment	23,238	23,238	-	0.0%
Construction in Progress	1,991,353	1,483,130	508,223	34.3%
Totals before Depreciation	67,034,295	66,474,693	559,602	0.8%
Accumulated Depreciation	(26,763,012)	(25,295,909)	(1,467,103)	5.7%
Total Capital Assets	\$ 40,271,283	\$ 41,178,784	(907,501)	-2.2%

- The increase in Capital Assets before depreciation in 2013 is primarily from Construction in Progress consisting mostly of distribution systems additions, upgrades to the distribution system and water tank improvements. The increase in Capital Assets before depreciation in 2012 is primarily from Construction in Progress, consisting mostly of distribution system additions.
- Refer to Note 4 of the basic financial statements for additional information on capital assets.

DEBT

Table 4 summarizes the District's long term debt. The District issues long term debt to finance many 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

	2013	2012	Change	
			Amount	%
REVENUE BONDS				
2013 Revenue Bonds	\$ 7,000,000	\$ -	\$ 7,000,000	100.0%
2011 Revenue Bonds	3,709,627	3,870,490	(160,863)	-4.1%
			-	-
2003 Revenue Bonds	-	8,644,881	(8,644,881)	100.0%
Rural Development Bonds	2,203,676	2,281,913	(78,237)	-3.4%
Total Revenue Bonds	12,913,303	14,797,284	(1,883,981)	12.7%
			-	-
Special Assessment Bonds	3,130,000	3,566,000	(436,000)	12.2%
Ohio Water & Sewer Rotary Commission	62,441	62,441	-	0%
			-	-
Long Term Debt	\$ 16,105,744	\$ 18,425,725	\$ (2,319,981)	12.5%
Less				
Reacquisition Costs 1995 Revenue Bonds -				-
				-
Advance Refunding	(584,814)	(622,711)	37,897	6.0%
Current Maturities	(1,710,223)	(1,694,237)	(15,986)	0.9%
Net Total Long Term Debt	\$ 13,810,707	\$ 16,108,777	\$ (2,298,070)	-14.3%
REVENUE BONDS				
2011 Revenue Bonds	\$ 3,870,490	\$ 4,026,351	\$ (155,861)	-3.9%
				-
2003 Revenue Bonds	8,644,881	9,688,182	(1,043,301)	10.8%
Rural Development Bonds	2,281,913	2,355,461	(73,548)	-3.1%
Total Revenue Bonds	14,797,284	16,069,994	(1,272,710)	-7.9%
				-
Special Assessment Bonds	3,566,000	3,987,000	(421,000)	10.6%
Ohio Water & Sewer Rotary Commission	62,441	62,441	-	0%
Long Term Debt	\$ 18,425,725	\$ 20,119,435	\$ (1,693,710)	-8.4%
Less				
Reacquisition Costs 1995 Revenue Bonds -				
Advance Refunding	(602,711)	(701,370)	78,659	11.2%
Current Maturities	(1,694,237)	(1,674,548)	(19,689)	-1.1%
Net Total Long Term Debt	\$ 16,108,777	\$ 17,743,517	\$ (1,634,740)	-9.2%

- The District issued \$7,000,000 in new long term debt in 2013. The District issued the new debt to refund the 2003 Revenue Bonds. The 2013 Revenue Bonds were assigned an Aa3 rating by Moody's Investors Services.
- The District incurred no new debt in 2012.
- The 2011 Revenue Bonds were assigned an As3 rating by Moody's Investors Services.

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			
	2013	2012	2011
Operating Revenues	\$ 7,788,591	\$ 8,165,334	\$ 7,723,692
Non-Operating Revenue	198,375	191,996	194,849
Total Revenues	7,986,966	8,357,330	7,918,541
Less Operations & Maintenance Expenses	(4,803,099)	(4,943,549)	(5,093,814)
Total Revenues Available for Debt	\$ 3,183,867	\$ 3,413,781	\$ 2,824,727
Revenue Bond Debt Service - 2003, 2011 & 2013	1,722,120	1,766,220	1,654,443
Revenue Bond Debt Service - Rural Development & Special Assessment - Deficit Collections	283,226	290,986	292,317
Total Debt Service Requirements	\$ 2,005,346	\$ 2,057,206	\$ 1,946,760
Coverage Ratio - Revenue Bonds			
Debts Service – 2003, 2011 & 2013	1.85	1.93	1.71
Combined Coverage Ratio - All Debt	1.59	1.66	1.45
Required Coverage Ratio			
Revenue Bonds - 2003, 2011 & 2013	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, 2011 and 2013 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 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.
- Refer to Note 5 of the basic financial statements for additional information on debt.

CASH

Cash and cash equivalents on December 31, 2013 were \$4.9 million. \$1.87 million of these funds are restricted for specific use. Restricted cash is deposited in Debt Reserves, Bond Payments and Escrowed Construction Fund accounts. The revenue 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 \$507 thousand in net position for the year ending December 31, 2014. Additional customer revenues, connection fees, along with continued containment of operating and maintenance expenses will contribute to this increase. Approval has been received from the Ohio Public Works Commission for Issue I grants for continued improvements of the District's water tanks and mains. Customer growth and capital contributions from developers are expected to only slightly increase during a continued sluggish 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
BUTLER COUNTY
STATEMENTS OF NET POSITION**
As of December 31, 2013 and 2012

	<u>2013</u>	<u>2012</u>
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 3,040,338	\$ 3,249,505
Accounts Receivable (Net of Allowance for Doubtful Accounts)	922,231	946,777
Special Assessments Receivable - Current Portion	467,000	436,000
Accrued Interest Receivable	293,170	228,101
Inventory	670,645	457,606
Prepaid Expenses	449,551	456,632
TOTAL CURRENT ASSETS	<u>5,842,935</u>	<u>5,774,621</u>
NONCURRENT ASSETS		
Restricted Assets:		
Equity in Pooled Cash and Cash Equivalents	1,873,470	2,548,470
TOTAL RESTRICTED ASSETS	<u>1,873,470</u>	<u>2,548,470</u>
Capital Assets:		
Water, Production, Treatments and Distribution Systems	60,160,473	60,051,273
Building, Office and Equipment (Restated - See Note 10)	4,857,404	4,756,863
Total Depreciable Capital Assets	65,017,877	64,808,136
Less: Accumulated Depreciation (Restated - See Note 10)	(28,400,741)	(26,763,012)
Net Depreciable Capital Assets	36,617,136	38,045,124
Land	234,806	234,806
Construction in Progress	3,372,401	1,991,353
NET CAPITAL ASSETS	<u>40,224,343</u>	<u>40,271,283</u>
Other Assets:		
Special Assessments Receivable-Non Current	1,824,446	2,311,715
TOTAL OTHER ASSETS	<u>1,824,446</u>	<u>2,311,715</u>
TOTAL ASSETS	<u>49,765,194</u>	<u>50,906,089</u>
DEFERRED OUTFLOWS OF RESOURCES		
Deferred Charges on Refunding	219,697	298,179
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	<u>\$ 49,984,891</u>	<u>\$ 51,204,268</u>
LIABILITIES		
CURRENT LIABILITIES		
Accounts Payable	\$ 130,299	\$ 126,314
Accrued Liabilities	118,566	109,428
Tenant Deposits	71,805	75,989
Accrued Interest	98,550	134,264
Current Maturities of Long Term Obligations	1,710,223	1,694,237
TOTAL CURRENT LIABILITIES	<u>2,129,443</u>	<u>2,140,232</u>
LONG TERM LIABILITIES		
Unearned Revenue	99,461	99,461
Long Term Obligations	13,810,707	16,108,777
TOTAL LONG TERM LIABILITIES	<u>13,910,168</u>	<u>16,208,238</u>
TOTAL LIABILITIES	<u>16,039,611</u>	<u>18,348,470</u>
NET POSITION		
Net Investment in Capital Assets	24,923,110	22,766,448
Restricted	1,873,470	2,548,470
Unrestricted	7,148,700	7,540,880
TOTAL NET POSITION	<u>33,945,280</u>	<u>32,855,798</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 49,984,891</u>	<u>\$ 51,204,268</u>

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

**SOUTHWEST REGIONAL WATER DISTRICT
BUTLER COUNTY
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION**
For the Years Ended December 31, 2013 and 2012

	<u>2013</u>	<u>2012</u>
OPERATING REVENUES		
Metered Water Sales to Customers	\$ 7,103,967	\$ 7,541,802
Sale of New Taps	300,200	287,425
Penalties	144,952	170,836
Miscellaneous	239,472	165,271
TOTAL OPERATING REVENUES	<u>7,788,591</u>	<u>8,165,334</u>
OPERATING EXPENSES		
Operations	4,152,100	4,087,533
Maintenance	650,999	856,016
Depreciation	1,685,432	1,689,041
TOTAL OPERATING EXPENSES	<u>6,488,531</u>	<u>6,632,590</u>
OPERATING INCOME	1,300,060	1,532,744
NON OPERATING REVENUES (EXPENSES)		
Intergovernmental	525,276	49,936
Interest Income	198,236	191,505
Interest Expense	(934,229)	(1,032,820)
Other Non Operating Revenue (Expense)	139	491
NET NON OPERATING REVNUUE (EXPENSES)	<u>(210,578)</u>	<u>(790,888)</u>
CHANGE IN NET POSITION	1,089,482	741,856
NET POSITION, BEGINNING OF YEAR	<u>32,855,798</u>	<u>32,113,942</u>
NET POSITION, END OF YEAR	<u>\$ 33,945,280</u>	<u>\$ 32,855,798</u>

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

**SOUTHWEST REGIONAL WATER DISTRICT
BUTLER COUNTY
STATEMENTS OF CASH FLOWS**
For the Years Ended December 31, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Cash Flows From Operating Activities:		
Receipts from Customers	\$ 7,573,665	\$ 7,966,658
Receipts from Others	239,472	165,272
Payments to Suppliers and Vendors	(2,106,020)	(2,302,171)
Payments to Employees	(2,815,616)	(2,799,357)
Net Cash Provided by Operating Activities	<u>2,891,501</u>	<u>3,030,402</u>
Cash Flows From Capital and Related Financing Activities:		
Proceeds from Capital Grants	525,276	49,936
Acquisition & Construction of Capital Assets	(1,660,501)	(781,540)
Payments on Borrowings	(2,282,084)	(1,615,051)
Collections on Special Assessments	456,269	421,000
Interest Paid	(969,943)	(1,040,336)
Net Cash Used By Capital and Related Financing Activities	<u>(3,930,983)</u>	<u>(2,965,991)</u>
Cash Flows From Noncapital Financing Activities:		
Other Non Operating Revenues	139	491
Net Cash Provided By Noncapital Financing Activities	<u>139</u>	<u>491</u>
Cash Flows From Investing Activities:		
Interest Received	133,167	130,187
Net Cash Provided By Capital Financing Activities	<u>133,167</u>	<u>130,187</u>
Net Increase/(Decrease) in Cash and Cash Equivalents	(906,176)	195,089
Cash and Cash Equivalents, January 1,	5,819,984	5,624,895
Cash and Cash Equivalents, December 31,	<u>\$ 4,913,808</u>	<u>\$ 5,819,984</u>
Restricted Cash	\$ 1,873,470	\$ 2,548,470
Unrestricted Cash	3,040,338	3,249,505
Total Cash	<u>\$ 4,913,808</u>	<u>\$ 5,797,975</u>
Reconciliation of Change in Net Assets to Net Cash Provided by Operating Activities:		
Operating Income	\$ 1,300,060	\$ 1,532,744
Adjustments to Reconcile Net Income to Net Cash from Operating Activities:		
Depreciation Expense	1,685,432	1,689,041
(Increase) Decrease in Accounts Receivable	24,546	(33,404)
(Increase) Decrease in Prepaid Expenses	7,081	(160,876)
(Increase) Decrease in Inventory	(213,039)	(11,915)
(Increase) Decrease in Deferred Charges	78,482	30,426
Increase (Decrease) in Accounts Payable	3,985	(20,706)
Increase (Decrease) in Accrued Liabilities	9,138	-
Increase (Decrease) in Tenant Deposits	(4,184)	5,092
Total Adjustments	<u>1,591,441</u>	<u>1,497,658</u>
Net Cash Provided by Operating Activities	<u>\$ 2,891,501</u>	<u>\$ 3,030,402</u>

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

SOUTHWEST REGIONAL WATER DISTRICT BUTLER COUNTY, OH

NOTES TO THE BASIC FINANCIAL STATEMENTS

For the Years Ended December 31, 2013 and 2012

1. NATURE OF ORGANIZATION

Southwest Regional Water District (hereafter referred to as SWRWD) (the District) 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. The financial statements of the District have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental and financial reporting principles.

3. **Budgetary Process**

Annually, the SWRWD adopts an operating budget. The annual budget is adopted and continues in effect until a new or amended budget is adopted.

4. **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.

5. **Accounts Receivable**

Accounts receivable are shown at their net realizable value. SWRWD has set up an allowance for doubtful accounts for fiscal year 2013. 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. Allowance for uncollectible amounts was \$122,020 for 2013 and \$105,283 for 2012.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS

For the Years Ended December 31, 2013 and 2012

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

7. 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. Depreciation is computed using the straight-line method over the following useful lives:

Buildings, Structures, and Improvements	5 – 40 years
Furniture, Fixtures, and Equipment	3 – 12 years
Infrastructure	10 – 40 years

8. Provision for Income Tax

SWRWD operates as a public water system exempt from federal income tax under Internal Revenue Code Section 501(c) (1).

9. 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.

STAR Ohio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price which is the price the investment could be sold for on December 31, 2013.

10. Compensated Absences

The District does not have any significant compensated absences.

11. Net Position

Net position represents the difference between assets and liabilities. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvements of those assets. Net position is reported as restricted when their use is limited either through legislation adopted by the District, or restrictions imposed by creditors, grantors or laws or regulations of other governments. The District applies restricted resources first when an expense is incurred for the purposes for which both restricted and unrestricted net position is available.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS

For the Years Ended December 31, 2013 and 2012

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

12. Inventories and Prepaid Items

The inventories of the District are valued at the lower of cost or market. Cost, as applied to inventory valuation, represents a moving average method whereby the cost per unit is recomputed after every addition to the inventory. The cost is expensed or capitalized at the time individual inventory items are consumed.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items and decreased over the useful benefit.

13. Deferred Outflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. Deferred outflows of resources represents a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until then. For the District, deferred outflows of resources include a deferred charge on refunding reported in the statement of net position. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

14. Change in Accounting Principles

For 2013, the District has implemented Governmental Accounting Standards Board (GASB) Statement No. 62, "Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements" and Statement No. 65, "Items Previously Reported as Assets and Liabilities".

GASB Statement No. 62 incorporates into GASB's authoritative literature certain FASB and AICPA pronouncements issued on or before November 30, 1989. The implementation of this statement did not result in any change to the District's financial statements.

GASB Statement No. 65 properly classifies certain items that were previously reported as assets and liabilities as deferred outflows of resources or deferred inflows of resources or recognizes certain items that were previously reported as assets and liabilities as outflows of resources (expenses or expenditures) or inflows of resources (revenues). These changes were incorporated in the District's 2013 financial statements; however, there was no effect on beginning net position.

3. CASH AND INVESTMENTS

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 THE BASIC FINANCIAL STATEMENTS

For the Years Ended December 31, 2013 and 2012

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. 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 of the State of Ohio; its political subdivisions, or other units or agencies of this State or its political subdivisions;
5. Time certificates of deposits or savings or deposit accounts, including, but not limited to, passbook accounts;
6. No-load money market mutual funds consisting of 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;
7. The State Treasurer's investment pool (STAR Ohio);
8. Securities lending agreements in which the District lends securities and the eligible institution agrees to exchange either securities described in division (1) or (2), or cash, or both securities and cash, equal value for equal value;
9. High grade commercial paper in an amount not to exceed five percent of the District's total average portfolio;
10. Banker's acceptance for a period not to exceed 270 days and in an amount not to exceed ten percent of the District's average portfolio.

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.

Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the District or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

Deposits – Custodial credit risk for deposits is the risk that in the event of bank failure, the District will not be able to recover deposits or collateral securities that are in the possession of an outside party. The carrying amount of the SWRWD deposits as of December 31, 2013 was \$2,727,250 and the bank balance was \$2,753,476. The carrying amount of the SWRWD deposits as of December 31, 2012 was \$3,188,842 and the bank balance was \$3,486,387. Of the bank balance:

1. \$703,451 as of December 31, 2013 and \$704,328 as of December 31, 2012 was covered by federal depository insurance; and
2. \$2,050,025 as of December 31, 2012 and \$2,782,059 as of December 31, 2012 was collateralized third party trustee in single institution collateral pools, securing all public funds on deposit with specific depository institutions and not subject to custodial credit risk.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS

For the Years Ended December 31, 2013 and 2012

3. CASH AND INVESTMENTS (continued)

Although all State statutory requirements for the deposit of money have been followed, non-compliance with federal requirements could potentially subject the District to a successful claim by the FDIC. The District has no deposit policy for custodial risk beyond the requirements of State statute.

Investments – As of December 31, 2013 and 2012, the District had the following investments which mature in less than one year:

	<u>Carrying and Fair Value</u>		<u>Percentage of Total Investments</u>	
	2013	2012	2013	2012
Star Ohio	\$ 537,589	\$ 285,164	24.5%	10.9%
Fifth Third US Treasury – Series 1999 Reserve	413,119	413,078	18.8%	15.8%
Fifth Third US Treasury – Series 2003 Reserve	-	1,410,702	0%	54.1%
Fifth Third US Treasury – Series 2011 Reserve	314,250	314,250	14.3%	12.0%
Fifth Third US Treasury – Series 2013 Reserve	700,008	-	32.0%	0%
Fifth Third US Treasury – 2003 Bond Fund – Int.	-	74,912	0%	2.9%
Fifth Third US Treasury – 2003 Bond Fund – Prin.	-	85,067	0%	3.3%
Fifth Third US Treasury – 2011 Bond Fund – Int.	12,351	12,625	0.5%	0.5%
Fifth Third US Treasury – 2011 Bond Fund – Prin.	13,333	13,335	0.6%	0.5%
Fifth Third US Treasury – 2013 Bond Fund – Int.	112,575	-	5.1%	0%
Fifth Third US Treasury – 2013 Bond Fund – Prin.	<u>83,333</u>	<u>-</u>	<u>3.8%</u>	<u>0%</u>
Total Fifth Third US Treasury	1,648,969	2,323,969		
Total Investments	<u>\$ 2,186,558</u>	<u>\$ 2,609,133</u>		

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 STAR Ohio 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 24.5% of its investments in STAR Ohio.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS

For the Years Ended December 31, 2013 and 2012

4. CAPITAL ASSETS

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

	Balance at 12/31/2012 (Restated)	Additions	Retirements Disposals	Balance at 12/31/2013
Non-Depreciable:				
Land	\$ 234,806	\$ -	\$ -	\$ 234,806
Construction in Progress	1,991,353	1,381,048	-	3,372,401
Total Non-Depreciable	2,226,159	1,381,048	-	3,607,207
Wells	978,346	-	-	978,346
Booster Stations & Equipment	3,603,380	9,272	-	3,612,652
Treatment Plants	10,555,968	-	-	10,555,968
Water Tanks & Standpipes	5,886,117	-	-	5,886,117
Distribution System	26,989,563	-	-	26,989,563
GIS System	274,245	-	-	274,245
Metered Services	10,169,364	99,929	-	10,269,293
Flush Hydrants	183,846	-	-	183,846
6" Hydrants	1,410,443	-	-	1,410,443
Structures & Improvements	2,448,667	8,028	-	2,456,695
Office Furniture & Equipment	635,218	37,160	(47,703)	624,675
Transportation/Constr. Equipment	951,992	103,055	-	1,055,047
SCADA System	522,147	-	-	522,147
Misc. Plant & Repair Equipment	175,602	-	-	175,602
Laboratory Equipment	23,238	-	-	23,238
Total Depreciable	64,808,136	257,444	(47,703)	65,017,877
Total at Historical Costs	\$ 67,034,295	\$ 1,638,492	\$ (47,703)	\$ 68,625,084
Accumulated Depreciation:				
Wells	\$ (559,390)	\$ (18,793)	\$ -	\$ (578,183)
Booster Stations & Equipment	(1,314,659)	(87,084)	-	(1,401,743)
Treatment Plants	(4,324,366)	(255,622)	-	(4,579,988)
Water Tanks & Standpipes	(2,184,761)	(166,565)	-	(2,351,326)
Distribution System	(11,054,193)	(648,819)	-	(11,703,012)
GIS System	(159,380)	(22,143)	-	(181,523)
Metered Services	(3,819,141)	(285,856)	-	(4,104,997)
Flush Hydrants	(86,238)	(4,308)	-	(90,546)
6" Hydrants	(433,367)	(33,958)	-	(467,325)
Structures & Improvements	(1,155,252)	(54,806)	-	(1,210,058)
Office Furniture & Equipment	(495,032)	(31,632)	47,703	(478,961)
Transportation/Constr. Equipment	(710,025)	(59,281)	-	(769,306)
SCADA System	(293,606)	(12,354)	-	(305,960)
Misc. Plant & Repair Equipment	(150,364)	(4,211)	-	(154,575)
Laboratory Equipment	(23,238)	-	-	(23,238)
Total Accumulated Depreciation	(26,763,012)	(1,685,432)	47,703	(28,400,741)
Capital Assets, Net	\$ 40,271,283	\$ (46,940)	\$ -	\$ 40,224,343

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

NOTES TO THE BASIC FINANCIAL STATEMENTS

For the Years Ended December 31, 2013 and 2012

4. CAPITAL ASSETS (continued)

	Balance at 12/31/2011	Additions	Retirements Disposals (Restated)	Balance at 12/31/2012
Non-Depreciable:				
Land	\$ 234,806	\$ -	\$ -	\$ 234,806
Construction in Progress	1,483,130	508,223	-	1,991,353
Total Non-Depreciable	1,717,936	508,223	-	2,226,159
Wells	978,346	-	-	978,346
Booster Stations & Equipment	3,586,427	16,953	-	3,603,380
Treatment Plants	10,555,968	-	-	10,555,968
Water Tanks & Standpipes	5,886,117	-	-	5,886,117
Distribution System	26,989,563	-	-	26,989,563
GIS System	274,245	-	-	274,245
Metered Services	10,074,502	94,862	-	10,169,364
Flush Hydrants	183,846	-	-	183,846
6" Hydrants	1,410,443	-	-	1,410,443
Structures & Improvements	2,448,667	-	-	2,448,667
Office Furniture & Equipment	655,283	33,349	(53,414)	635,218
Transportation/Constr. Equipment	992,363	131,013	(171,384)	951,992
SCADA System	522,147	-	-	522,147
Misc. Plant & Repair Equipment	175,602	-	-	175,602
Laboratory Equipment	23,238	-	-	23,238
Total Depreciable	64,756,757	276,177	(224,798)	64,808,136
Total at Historical Costs	\$ 66,474,693	\$ 784,400	\$ (224,798)	\$ 67,034,295
Accumulated Depreciation				
Wells	\$ (540,328)	\$ (19,062)	\$ -	\$ (559,390)
Booster Stations & Equipment	(1,227,435)	(87,224)	-	(1,314,659)
Treatment Plants	(4,065,588)	(258,778)	-	(4,324,366)
Water Tanks & Standpipes	(2,015,595)	(169,166)	-	(2,184,761)
Distribution System	(10,396,716)	(657,477)	-	(11,054,193)
GIS System	(135,853)	(23,527)	-	(159,380)
Metered Services	(3,531,445)	(287,696)	-	(3,819,141)
Flush Hydrants	(81,864)	(4,374)	-	(86,238)
6" Hydrants	(399,082)	(34,285)	-	(433,367)
Structures & Improvements	(1,096,050)	(59,202)	-	(1,115,252)
Office Furniture & Equipment	(518,648)	(29,798)	53,414	(495,032)
Transportation/Constr. Equipment	(836,690)	(41,860)	168,525	(710,025)
SCADA System	(281,064)	(12,542)	-	(293,606)
Misc. Plant & Repair Equipment	(146,313)	(4,051)	-	(150,364)
Laboratory Equipment	(23,238)	-	-	(23,238)
Total Accumulated Depreciation	(25,295,909)	(1,689,042)	221,939	(26,763,012)
Capital Assets, Net	\$ 41,178,784	\$ (904,642)	\$ (2,859)	\$ 40,271,283

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

NOTES TO THE BASIC FINANCIAL STATEMENTS

For the Years Ended December 31, 2013 and 2012

5. LONG TERM OBLIGATIONS

Description	12/31/2012 Balance	Issued in 2013	Payments 2013	12/31/2013 Balance	Due Within One Year
USDA, Rural Development Bonds	\$ 2,281,913	\$ -	\$ 78,237	\$ 2,203,676	\$ 83,223
Special Assessment Water Line Extension Bonds - Series 1994	20,000	-	10,000	10,000	10,000
Special Assessment Water Line Extension Bonds - Series 1996	295,000	-	70,000	225,000	70,000
Special Assessment Water Line Extension Bonds - Series 1997	35,000	-	6,000	29,000	7,000
Special Assessment Water Line Extension Bonds - Series 1999	2,335,000	-	280,000	2,055,000	300,000
Special Assessment Water Line Extension Bonds - Series 2000	320,000	-	30,000	290,000	35,000
Special Assessment Water Line Extension Bonds - Series 2002	455,000	-	35,000	420,000	40,000
Special Assessment Water Line Extension Bonds - Series 2007	106,000	-	5,000	101,000	5,000
Revenue Bonds Series 2003	8,644,881	-	8,644,881	-	-
Revenue Bonds Series 2011	3,870,490	-	160,863	3,709,627	160,000
Revenue Bonds Series 2013	-	7,000,000	-	7,000,000	1,000,000
Advance note payable to State of Ohio	62,441	-	-	62,441	-
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total before Premium and deceased interest	18,425,725	7,000,000	9,319,981	16,105,744	1,710,223
Series 2013 - 1995 Bond Refunding Premium and deceased interest	(622,711)	-	(37,897)	(584,814)	(90,589)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Totals	<u>\$ 17,803,014</u>	<u>\$7,000,000</u>	<u>\$ 9,282,084</u>	<u>\$15,520,930</u>	<u>\$ 1,619,634</u>

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

NOTES TO THE BASIC FINANCIAL STATEMENTS

For the Years Ended December 31, 2013 and 2012

5. LONG TERM OBLIGATIONS (continued)

Long-term obligations consist of:

Description	12/31/2011 Balance	Issued in 2012	Payments 2012	12/31/2012 Balance	Due Within One Year
USDA, Rural Development Bonds	\$ 2,355,461	\$ -	\$ 73,548	\$ 2,281,913	\$ 78,237
Special Assessment Water Line Extension Bonds - Series 1994	30,000	-	10,000	20,000	10,000
Special Assessment Water Line Extension Bonds - Series 1996	360,000	-	65,000	295,000	70,000
Special Assessment Water Line Extension Bonds - Series 1997	41,000	-	6,000	35,000	6,000
Special Assessment Water Line Extension Bonds - Series 1999	2,605,000	-	270,000	2,335,000	280,000
Special Assessment Water Line Extension Bonds - Series 2000	350,000	-	30,000	320,000	30,000
Special Assessment Water Line Extension Bonds - Series 2002	490,000	-	35,000	455,000	35,000
Special Assessment Water Line Extension Bonds - Series 2007	111,000	-	5,000	106,000	5,000
Revenue Bonds Series 2003	9,688,182	-	1,043,301	8,644,881	1,020,000
Revenue Bonds Series 2011	4,026,351	-	155,861	3,870,490	160,000
Advance note payable to State of Ohio	62,441	-	-	62,441	-
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total before Premium and deceased interest	20,119,435	-	1,693,710	18,425,725	1,694,237
Series 2003 - 1995 Bond Refunding Premium and deceased interest	(701,370)	-	(78,659)	(622,711)	(78,658)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Totals	<u>\$19,418,065</u>	<u>\$ -</u>	<u>\$ 1,615,051</u>	<u>\$ 17,803,014</u>	<u>\$ 1,615,579</u>

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

NOTES TO THE BASIC FINANCIAL STATEMENTS

For the Years Ended December 31, 2013 and 2012

5. LONG TERM OBLIGATIONS (continued)

As of December 31, 2013, the maturities of the principal amount of long-term debt for the five years ending:

Year	Principal	Interest
2014	\$ 1,710,223	\$ 591,158
2015	1,792,971	536,034
2016	1,779,579	488,774
2017	1,784,177	436,207
2018	1,753,563	382,520
2019-2023	4,386,804	1,159,906
2024-2028	2,161,903	556,465
2029-2030	<u>781,895</u>	<u>55,444</u>
	16,091,115	4,206,508
1995 Bond Refunding Defeased Interest	(544,052)	
2011 Bond Issue Premium	14,630	
2013 Bond Defeased Interest	<u>(40,763)</u>	
Total	<u>\$ 15,520,930</u>	<u>\$ 5,925,898</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%

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, and 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 were 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 \$0. Principal and interest paid for the current year was \$8,644,881.

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.

5. LONG TERM OBLIGATIONS (continued)

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

NOTES TO THE BASIC FINANCIAL STATEMENTS

For the Years Ended December 31, 2013 and 2012

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 \$2,203,676. Principal and interest paid for the current year and total customer net revenues were \$233,708 and \$3,043,418 respectively.

During 1996, \$995,000 of Water Line Extension Bonds, Special Assessment Series 1996, and 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, and 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, and 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, and 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, and 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, and 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%.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS

For the Years Ended December 31, 2013 and 2012

5. LONG TERM OBLIGATIONS (continued)

During 2011, \$4,075,000 of Waterworks System Revenue Improvement Bonds, Series 2011 was issued. The District has pledged water customer revenues, net of specific operating expenses, to repay the waterworks revenue improvement bonds. Proceeds from the bonds (a) refunded the 2010 Bond Anticipation Note; (b) make certain improvements to the Waterworks System water tanks (c) fund a reserve, and (d) pay costs of issuance. The bonds are payable through 2030. The bonds mature at varying amounts and require interest payments at varying rates between 1.00% and 4.80%. The total principal and interest remaining to be paid on the bonds is \$5,285,858. Principal and interest paid for the current year and total customer net revenues were \$311,418 and \$3,043,418 respectively.

During 2013, \$7,000,000 of Waterworks System Revenue Improvement Bonds, Series 2013 was issued. The District has pledged water customer revenues, net of specific operating expenses, to repay the waterworks revenue improvement bonds. Proceeds from the bonds (a) refunded the 2003 Revenue Bond Note, (b) fund a reserve, and (c) pay costs of issuance. The bonds are payable through 2020. The bonds mature at varying amounts and require interest payments between .85% and 2.50%. The total principal and interest remaining to be paid on the bonds is \$7,563,128. Principal and interest paid for the current year and total customer net revenues were \$0 and \$3,043,418, respectively.

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.

6. 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, 2013 and December 31, 2012 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, 2013 and December 31, 2012 are as follows:

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

NOTES TO THE BASIC FINANCIAL STATEMENTS

For the Years Ended December 31, 2013 and 2012

6. ASSESSMENTS RECEIVABLE (continued)

December 31, 2013	<u>Total Assessed</u>	<u>Prepaid Assessments</u>	<u>County Auditor and Deferred Assessments Paid</u>	<u>% Collected</u>
1994 Assessments	\$ 227,778	\$ -	\$ 140,000	61%
1996 Assessments	889,478	-	770,000	87%
1997 Assessments	94,579	-	69,000	73%
1999 Assessments	4,322,014	19,093	2,945,000	68%
2000 Assessments	579,383	12,144	320,000	55%
2002 Assessments	736,635	8,960	345,000	47%
2007 Assessments	<u>116,045</u>	<u>-</u>	<u>25,000</u>	22%
Total Receivable (\$2,291,446)	<u>\$ 6,965,912</u>	<u>\$ 40,197</u>	<u>\$ 4,614,000</u>	66%

December 31, 2012	<u>Total Assessed</u>	<u>Prepaid Assessments</u>	<u>County Auditor and Deferred Assessments Paid</u>	<u>% Collected</u>
1994 Assessments	\$ 227,778	\$ -	\$ 130,000	57%
1996 Assessments	889,478	-	700,000	79%
1997 Assessments	94,579	-	63,000	67%
1999 Assessments	4,322,014	19,093	2,665,000	62%
2000 Assessments	579,383	12,144	290,000	50%
2002 Assessments	736,635	8,960	310,000	42%
2007 Assessments	<u>116,045</u>	<u>-</u>	<u>20,000</u>	17%
Total Receivable (\$2,747,715)	<u>\$ 6,965,912</u>	<u>\$ 40,197</u>	<u>\$ 4,178,000</u>	60%

The following are the amounts billed and collected by the Counties for the District special assessments.

Collection Year	Total Assessments Levied	Current Assessments Collected	% of Total Collections to Assessments Levied	Delinquent Assessments Collected*	Total Collections as a % of Current Assessments Levied
2013	\$ 572,208	\$ 541,412	95%	\$ 43,370	102%
2012	572,208	509,797	89%	38,912	96%
2011	<u>572,703</u>	<u>509,438</u>	89%	<u>45,877</u>	97%
Total	<u>\$ 1,717,119</u>	<u>\$ 1,560,647</u>	91%	<u>\$ 128,159</u>	98%

* Collected Delinquent Assessments include penalty and interest

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

NOTES TO THE BASIC FINANCIAL STATEMENTS

For the Years Ended December 31, 2013 and 2012

7. DEFINED BENEFIT RETIREMENT PLAN

Ohio Public Employees Retirement System

Plan Description - The District participates in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans. The Traditional Pension Plan is a cost-sharing, multiple-employer defined benefit pension plan. The Member-Directed Plan is 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 the member and vested employer contributions plus any investment earnings. The Combined Plan is a cost-sharing, multiple-employer defined benefit pension plan that has elements of both a defined benefit and a defined contribution plan. Under the Combined Plan, employer contributions are invested by the retirement system to provide a formula retirement benefit similar to the Traditional Pension Plan benefit. Member contributions, whose investment is self-directed by the member, accumulate retirement assets in a manner similar to the Member-Directed Plan.

OPERS provides retirement, disability, survivor and death benefits and annual cost of living adjustments to members of the Traditional Pension and the Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report which may be obtained by visiting <https://www.opers.org/investments/cafr.shtml>, writing to OPERS, 277 East Town Street, Columbus, OH 43215-4642 or by calling (614) 222-5601 or (800) 222-7377.

Funding Policy - The Ohio Revised Code provides statutory authority for member and employer contributions. For 2013, member and contribution rates were consistent across all three plans. The 2013 member contribution rates were 10.00% for members. The District's contribution rate for 2013 was 14.00% of covered payroll.

The District's contribution rate for pension benefits for members in the Traditional Plan for 2013 was 13.00%. The District's required contributions for pension obligations to the Traditional Pension Plan for the years ended December 31, 2013, 2012, and 2011 were \$290,598, \$289,949, and \$290,252, respectively; 100% has been contributed for 2013, 2012 and 2011.

8. POST EMPLOYMENT BENEFITS

Ohio Public Employees Retirement System

Plan Description - 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 Traditional Pension and the Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits, including post-employment health care coverage.

To qualify for post-employment health care coverage, age-and-service retirees under the Traditional Pension and Combined Plans must have ten years or more of qualifying Ohio service credit. 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.

Disclosures for the healthcare plan are presented separately in the OPERS financial report which may be obtained by visiting <https://www.opers.org/investments/cafr.shtml>, writing to OPERS, 277 East Town Street, Columbus, OH 43215-4642 or by calling (614) 222-5601 or (800) 222-7377.

Funding Policy - The post-employment healthcare plan was established under, and is administered in accordance with, Internal Revenue Code Section 401(h). State statute requires that public employers fund post-employment healthcare through contributions to OPERS. A portion of each employer's contribution to the Traditional or Combined Plans is set aside for the funding of post-employment health care.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS

For the Years Ended December 31, 2013 and 2012

8. POST EMPLOYMENT BENEFITS (continued)

Employer contribution rates are expressed as a percentage of the covered payroll of active employees. In 2013, local government employers contributed 14.00% of covered payroll. Each year the OPERS' Retirement Board determines the portion of the employer contribution rate that will be set aside for the funding of the postemployment health care benefits. The portion of employer contributions allocated to fund post-employment healthcare for members in the Traditional Plan for 2013 was 1.00%. The portion of employer contributions allocated to fund post-employment healthcare for members in the Combined Plan for 2013 was 1.00%.

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. Active members do not make contributions to the post-employment healthcare plan.

The District's contributions allocated to fund post-employment health care benefits for the years ended December 31, 2013, 2012, and 2011 were \$90,476, \$83,927, and \$82,925, respectively; 100% has been contributed for 2013, 2012 and 2011.

Changes to the health care plan were adopted by the OPERS Board of Trustees on September 19, 2012, with a transition plan commencing January 1, 2014. With the recent passage of pension legislation under State Bill 343 and the approved health care changes, OPERS expects to be able to consistently allocate 4 percent of the employer contributions toward the health care fund after the end of the transition period.

9. RISK MANAGEMENT

The District 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 2013 and 2012, the District 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 District 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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS

For the Years Ended December 31, 2013 and 2012

10. PRIOR PERIOD RESTATEMENT

In 2012, the District disposed of electronic equipment capital assets, but the cost of the assets and the corresponding accumulated depreciation was not removed from the financial statements. Below is the result of removing the assets from the 2012 financial statements:

	Depreciable Capital Assets	Accumulated Depreciation	Net Depreciable Capital Assets
December 31, 2012 Unadjusted Balance	\$ 64,861,550	\$ (26,816,426)	\$ 38,045,124
Less: Disposed Assets	(53,414)	-	(53,414)
Add: Related Accumulated Depreciation	-	53,414	53,414
December 31, 2012 Adjusted Balance	\$ 64,808,136	\$ (26,763,012)	\$ 38,045,124

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**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
REQUIRED BY *GOVERNMENT AUDITING STANDARDS***

June 30, 2014

Southwest Regional Water District
Butler County
3640 Old Oxford Road
Hamilton, Ohio 45013

To the Board of Trustees:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the **Southwest Regional Water District**, Butler County (the District) as of and for the years ended December 31, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated June 30, 2014.

Internal Control Over Financial Reporting

As part of our financial statement audit, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures appropriate in the circumstances to the extent necessary to support our opinion on the financial statements, but not to the extent necessary to opine on the effectiveness of the District's internal control. Accordingly, we have not opined on it.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or combination of internal control deficiencies resulting in a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the District's financial statements. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all internal control deficiencies that might be material weaknesses or significant deficiencies. Given these limitations, we did not identify any deficiencies in internal control that we consider material weaknesses. However, unidentified material weaknesses may exist.

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, opining 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 did note certain matters not requiring inclusion in this report that we reported to the District's management in a separate letter dated June 30, 2014.

Purpose of this Report

This report only describes the scope of our internal control and compliance testing and our testing results, and does not opine on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Perry and Associates
Certified Public Accountants, A.C.
Marietta, Ohio

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Dave Yost • 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
AUGUST 19, 2014**