SOUTHWEST REGIONAL WATER DISTRICT
BUTLER COUNTY

REGULAR AUDIT

FOR THE YEARS ENDED DECEMBER 31, 2017-2016

Dave Yost • Auditor of State

SOUTHWEST REGIONAL WATER DISTRICT
BUTLER COUNTY

TABLE OF CONTENTS

This page intentionally left blank.

INDEPENDENT AUDITOR'S REPORT

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, 2017 and 2016, 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 audit. 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 such 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 opinions.

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, Ohio, as of December 31, 2017 and 2016, and its changes in 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* and schedules of net pension liabilities and pension contributions 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 October 4, 2018, 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.

Dave Yost
Auditor of State

Columbus, Ohio

October 4, 2018

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 and deferred outflows of SWRWD exceeded total liabilities and deferred inflows on December 31, 2017 by $37.8 million and $36.7 million on December 31, 2016.

- The District's net position increased $1.07 million in 2017 and increased $1.46 million in 2016

- The District's Operating Revenues increased by $27.0 thousand 0.3% in 2017 and decreased by ($42.3) thousand (0.5%) in 2016 with Operating and Maintenance Expenses increasing $238.5 thousand 3.7% in 2017 and increasing $190.8 thousand (4.2%) in 2016.

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 Position** includes all of the District's Assets and deferred outflows and Liabilities and deferred inflows. 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 position (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 **Statement of Cash Flows** presents information about the District's cash receipts and disbursements from operations, investing and financing activities. The statement summarizes where the cash was provided, cash uses, and changes in the balances during the year.

NET ASSETS

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

TABLE 1

	2017	2016	Change Amount	%
Current and Other Assets	$ 10,769,991	$ 11,280,815	$ (510,824)	-4.5%
Capital Assets	$ 39,712,436	$ 39,036,791	$ 675,645	1.7%
Total Assets	**$ 50,482,427**	**$ 50,317,606**	**$ 164,821**	**0.3%**
Deferred Outflows of Resources	**$ 1,480,703**	**$ 1,232,524**	**$ 248,179**	**20.1%**
Total Assets and Deferred Outflows of Resources	**$ 51,963,130**	**$ 51,550,130**	**$ 413,000**	**0.8%**
Long Term Liabilities	$ 8,172,065	$ 9,515,447	$ (1,343,382)	-14.1%
Net Pension Liabilities	$ 3,504,164	$ 2,844,176	$ 659,988	23.2%
Other Liabilities	$ 2,323,732	$ 2,344,059	$ (20,327)	-0.9%
Total Liabilities	**$ 13,999,961**	**$ 14,703,682**	**$ (703,721)**	**-4.8%**
Pension	$ 109,867	$ 64,231	$ 45,636	71.0%
Deferred Total of Resources	**$ 109,867**	**$ 64,231**	**$ 45,636**	**71.0%**
Net Positior				
Invested in Capital, Net of Debt	$ 29,787,229	$ 27,779,017	$ 2,008,212	7.2%
Restricted	$ 1,780,578	$ 1,653,706	$ 126,872	7.7%
Unrestricted	$ 6,285,496	$ 7,349,495	$ (1,063,999)	-14.5%
Total Net Position	**$ 37,853,303**	**$ 36,782,218**	**$ 1,071,085**	**2.9%**
Total Liabilities and Deferred Inflows of Resources & Net Position	**$ 51,963,131**	**$ 51,550,131**	**$ 413,000**	**0.8%**

	2016	2015	Change Amount	%
Current and Other Assets	$ 11,280,815	$ 10,890,038	$ 390,777	3.6%
Capital Assets	$ 39,036,791	$ 38,890,093	$ 146,698	0.4%
Total Assets	**$ 50,317,606**	**$ 49,780,131**	**$ 537,475**	**1.1%**
Deferred Outflows of Resources	**$ 1,232,524**	**$ 526,220**	**$ 706,304**	**134.2%**
Total Assets and Deferred Outflows of Resources	**$ 51,550,130**	**$ 50,306,351**	**$ 1,243,779**	**2.5%**
Long Term Liabilities	$ 9,515,447	$ 10,707,385	$ (1,191,938)	-11.1%
Net Pension Liabilities	$ 2,844,176	$ 1,993,823	$ 850,353	42.6%
Other Liabilities	$ 2,344,059	$ 2,254,079	$ 89,980	4.0%
Total Liabilities	**$ 14,703,682**	**$ 14,955,287**	**$ (251,605)**	**-1.7%**

NET ASSETS - (continued)

Pension	$ 64,231	$ 35,028	$ 29,203	
Deferred Total of Resources	**$ 64,231**	**$ 35,028**	**$ 29,203**	
Net Assets				
Invested in Capital, Net of Debt	$ 27,779,017	$ 26,408,738	$ 1,370,279	5.2%
Restricted	$ 1,653,706	$ 1,782,226	$ (128,520)	-7.2%
Unrestricted	$ 7,349,495	$ 7,125,072	$ 224,423	3.1%
Total Net Position	**$ 36,782,218**	**$ 35,316,036**	**$ 1,466,182**	**4.2%**
Total Liabilities and Deferred Inflows of Resources & Net Position	**51,550,131**	**50,306,351**	**1,243,780**	**2.5%**

In 2015, the District adopted GASB 68, " Accounting and Financial Reporting for Pensions-an Amendment of GASB Statement 27," which significantly revised accounting for pension costs and liabilities. For reasons discussed below, many end users of this financial statement will gain a clearer understanding of the District's actual financial condition by adding deferred inflows related to pension and the net pension liability to the reported net position and subtracting deferred outflows related to pension.

Government Accounting Standards Board standards are national and apply to all government financial reports prepared in accordance with generally accepted accounting principles. When accounting for pension costs, GASB 27 focused on a funding approach. The approach limited pension costs to contributions annually required by law, which may or may not be sufficient to fully fund each plan's net pension liability. GASB 68 takes an earnings approach to pension accounting explanation in order to properly understand the information presented in these statements.

Under the new standards required by GASB 68, the net pension liability equals the District's proportionate share of each plan's collective:

1. Present value of estimated future pension benefits attributable to active and inactive employees' past service.
2. Minus plan assets available to pay those benefits.

GASB notes that pension obligations, whether funded or unfunded, are part of the "employment exchange"- that is, the employee is trading his or her labor in exchange for wages, benefits, and the promise of a future pension. GASB noted that the unfunded portion of this pension promise is a present obligation of the government, part of a bargained-for benefit to the employee, and should accordingly be reported by the government as a liability since they received the benefit of the exchange. However, the district is not responsible for certain key factors affecting the balance of this liability. In Ohio, the employee shares the obligation of funding pension benefits with the employer. Both employer and employee contribution rates are capped by State statute. A change in these caps require action of both houses of the General Assembly and approval of the Governor.

Benefit provisions are also determined by State statue. The employee enters the employment exchange with the knowledge that the employer's promise is limited not by the contract but by law. The employer enters the exchange also knowing that there is a specific, legal limit to its contribution to the pension system.

In Ohio, there is no legal means to enforce the unfunded liability of the pension system as against the public employer. State law operates to mitigate/lessen the moral obligation of the public employer to the employee, because all parties enter the employment exchange with notice as to the law.

The pension system is responsible for the administration of the plan.

Most long-term liabilities have set repayment schedules or, in the case of compensated absences (i.e. sick and vacation leave), are satisfied through paid time-off or termination payments. There is no repayment schedule for the net pension liability.

As explained above, changes in pension benefits, contributions rates, and return on investments affect the balance of the net pension liability, but are outside the control of the local government. In the event that contributions, investment returns, and other changes are insufficient to keep up with required pension payments, State statute does not assign/identify the responsible party for the unfunded portion. Due to the unique nature of how the net pension liability is satisfied, this liability is separately identified within the long-term liability section of the statement of the net position.

NET ASSETS - (continued)

In accordance with GASB 68, the District's statements prepared on the accrual basis of accounting include an annual pension expense for their proportionate share of each plan's change in net pension liability not accounted for as deferred inflows/outflows.

- The District's Net Position increased $1.07 million dollars in 2017. The increase is a mostly a result of increased current assets and decrease in long term liabilities. The District's Net Position increased $1.46 million dollars in 2016. This increase was primarily the result of increase in new connections and a decrease in long term liabilities.
- The District incurred additional OPWC interest free loans in 2017.
- The district incurred no new long term debt in 2017.

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

	2017	2016	Change Amount	%
Operating Revenues	$ 7,942,334	$ 7,915,294	$ 27,040	0.3%
Total Revenues	**$ 7,942,334**	**$ 7,915,294**	**$ 27,040**	**0.3%**
Operating Expenses	$ 4,028,539	$ 3,912,136	$ 116,403	3.0%
Maintenance expenses	$ 921,149	$ 801,678	$ 119,471	14.9%
Depreciation Expenses	$ 1,704,455	$ 1,701,748	$ 2,707	0.2%
Total Expenses	**$ 6,654,143**	**$ 6,415,562**	**$ 238,581**	**3.7%**
Operating Income	**$ 1,288,191**	**$ 1,499,732**	**$ (211,541)**	**-14.1%**
Non-Operating Revenues	$ 653,497	$ 542,294	$ 111,203	20.5%
Non-Operating Expenses	$ (870,604)	$ (575,844)	$ (294,760)	51.2%
Change in Net Position	**$ 1,071,084**	**$ 1,466,182**	**$ (395,098)**	**-26.9%**
Net Position at Beginning of Year	**$ 36,782,217**	**$ 35,316,035**	**$ 1,466,182**	**4.2%**
Net Position at End Of Year	**$ 37,853,301**	**$ 36,782,217**	**$ 1,071,084**	**2.9%**

	2016	2015	Change Amount	%
Operating Revenues	$ 7,915,294	$ 7,957,546	$ (42,252)	-0.5%
Total Revenues	**$ 7,915,294**	**$ 7,957,546**	**$ (42,252)**	**-0.5%**
Operating Expenses	$ 3,912,136	$ 3,893,067	$ 19,069	0.5%
Maintenance Expenses	$ 801,678	$ 629,899	$ 171,779	27.3%
Depreciation Expenses	$ 1,701,748	$ 1,711,949	$ (10,201)	-0.6%
Total Expenses	**$ 6,415,562**	**$ 6,234,915**	**$ 180,647**	**2.9%**
Operating Income	**$ 1,499,732**	**$ 1,722,631**	**$ (222,899)**	**-12.9%**
Non-Operating Revenues	$ 542,294	$ 786,659	$ (244,365)	-31.1%
Non-Operating Expenses	$ (575,844)	$ (612,162)	$ 36,318	-5.9%
Change in Net Position	**$ 1,466,182**	**$ 1,897,128**	**$ (430,946)**	**-22.7%**
Net Position at Beginning of Year	**$ 35,316,035**	**$ 33,418,907**	**$ 1,897,128**	**5.7%**
Net Position at End Of Year	**$ 36,782,217**	**$ 35,316,035**	**$ 1,466,182**	**4.2%**

STATEMENT OF Revenues & Expenses (CHANGES IN NET POSITION) - (continued)

- Total Operating Revenues increased 27.0 thousand .3% in 2017 as metered water sales, fees and miscellanous revenue increased. Total Operating Revenues decreased ($42.2) thousand (.5%) in 2016, a slight decrease in water sales and an decrease in miscellanous revenue. Total Operation Revenue increased $20.3 thousand .3% in 2015 as new connections and miscellaneous revenue increased.
- Total Operating and Maintenance Expenses (excluding depreciation) increased $238.6 thousand 3.7% in 2017
- Total Operating and Maintenance Expenses (excluding depreciation) increased $190.8 thousand 4.2% in 2016
- Total Operating and Maintenance Expenses (excluding depreciation) decreased $52.7 thousand (1.2%) in 2015
- The total change in net assets (net retained earnings) in 2017 was an increase of $1,071.1 thousand compared to an increase of $1,466.2 thousand in 2016 and an increase of $1,897.2 thousand in 2015.

CAPITAL ASSETS

The District had $74.8 million invested in Capital Assets (before depreciation) at the end of 2017, $72.5 million in 2016 and $70.6 million in 2015, as shown in Table 3. This amount is an increase of $2,303.9 (3.2%) thousand in 2017 from 2016 and $1,848.5 (2.6%) thousand from the previous year, 2015.

TABLE 3

	2017	2016	Change Amount	%
Land	$ 234,806	$ 234,806	$ -	0.0%
Wells	$ 978,346	$ 978,346	$ -	0.0%
Booster Stations & Equip	$ 3,663,248	$ 3,650,256	$ 12,992	0.4%
Treatment Plants	$ 10,814,229	$ 10,529,587	$ 284,642	2.7%
Water Tanks & Standpipes	$ 7,581,790	$ 5,950,294	$ 1,631,496	27.4%
Distribution System	$ 28,707,729	$ 26,991,698	$ 1,716,031	6.4%
GIS System	$ 274,245	$ 274,245	$ -	0.0%
Metered Services	$ 10,879,870	$ 10,660,330	$ 219,540	2.1%
Flush Hydrants	$ 183,846	$ 183,846	$ -	0.0%
6" Hydrants	$ 1,410,218	$ 1,408,308	$ 1,910	0.1%
Structures & Improvements	$ 2,630,404	$ 2,603,983	$ 26,421	1.0%
Office Furniture & Equipment	$ 652,396	$ 632,357	$ 20,039	3.2%
Transportation/Constr. Equip	$ 1,158,268	$ 1,171,763	$ (13,495)	-1.2%
SCADA System	$ 616,686	$ 569,866	$ 46,820	8.2%
Misc. Plant & Repair Equipment	$ 181,038	$ 181,038	$ -	0.0%
Laboratory Equipment	$ 23,238	$ 23,238	$ -	0.0%
Construction in Progress	$ 4,793,401	$ 6,435,885	$ (1,642,484)	-25.5%
Totals before Depreciation	$ 74,783,758	$ 72,479,846	$ 2,303,912	3.2%
Accumulated Depreciation	$ (35,071,323)	$ (33,443,055)	$ (1,628,268)	4.9%
Total Capital Assets	**$ 39,712,435**	**$ 39,036,791**	**$ 675,644**	**1.7%**

CAPITAL ASSETS - (continued)

	2016	2015	Change Amount	%
Land	$ 234,806	$ 234,806	$ -	0.0%
Wells	$ 978,346	$ 978,346	$ -	0.0%
Booster Stations & Equip	$ 3,650,256	$ 3,640,635	$ 9,621	0.3%
Treatment Plants	$ 10,529,587	$ 10,506,297	$ 23,290	0.2%
Water Tanks & Standpipes	$ 5,950,294	$ 5,950,294	$ -	0.0%
Distribution System	$ 26,991,698	$ 26,991,698	$ -	0.0%
GIS System	$ 274,245	$ 274,245	$ -	0.0%
Metered Services	$ 10,660,330	$ 10,500,776	$ 159,554	1.5%
Flush Hydrants	$ 183,846	$ 183,846	$ -	0.0%
6" Hydrants	$ 1,408,308	$ 1,408,308	$ -	0.0%
Structures & Improvements	$ 2,603,984	$ 2,481,251	$ 122,733	4.9%
Office Furniture & Equipment	$ 632,357	$ 632,357	$ -	0.0%
Transportation/Constr. Equip	$ 1,171,763	$ 1,143,763	$ 28,000	2.4%
SCADA System	$ 569,866	$ 522,147	$ 47,719	9.1%
Misc. Plant & Repair Equipment	$ 181,038	$ 175,602	$ 5,436	3.1%
Laboratory Equipment	$ 23,238	$ 23,238	$ -	0.0%
Construction in Progress	$ 6,435,885	$ 4,983,791	$ 1,452,094	29.1%
Totals before Depreciation	$ 72,479,847	$ 70,631,400	$ 1,848,447	2.6%
Accumulated Depreciation	$ (33,443,056)	$ (31,741,306)	$ (1,701,750)	5.4%
Total Capital Assets	**$ 39,036,791**	**$ 38,890,094**	**$ 146,697**	**0.4%**

- The increase in Capital Assets before depreciation in 2017 is primarily from Construction in Progress consisting mostly of Distribution Systems Additions and improvements and water tank improvements. The increase in Capital Assets before depreciation in 2016 is primarily from Construction in Progress, consisting mostly of Distribution and water tank improvements, and in 2015 primarily from Distribution System additions and improvements and water tank improvements

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

	2017	2016	Change Amount	%
REVENUE BONDS				
2011 Revenue Bonds	$ 3,036,187	$ 3,212,048	$ (175,861)	-5.5%
2013 Revenue Bonds	$ 3,000,000	$ 4,000,000	$ (1,000,000)	-25.0%
Rural Development Bonds	$ 1,837,572	$ 1,937,749	$ (100,177)	-5.2%
Total Revenue Bonds	**$ 7,873,759**	**$ 9,149,797**	**$ (1,276,038)**	**-13.9%**
Special Assessment Bonds	$ 1,235,000	$ 1,684,000	$ (449,000)	-26.7%
OPWC - Loan	$ 1,079,265	$ 766,236	$ 313,029	40.9%
Unclaimed Funds	$ 1,399	$ 616	$ 783	127.0%
Net Pension Liability	$ 3,504,164	$ 2,844,176	$ 659,988	23.2%
Long Term Debt	**$ 13,693,587**	**$ 14,444,825**	**$ (751,238)**	**-5.2%**
Reacquisition Costs 1995 Revenue Bonds				
Advance Refunding	$ (264,216)	$ (342,875)	$ 78,659	-22.9%
Current Maturities	$ (1,753,142)	$ (1,742,327)	$ (10,815)	0.6%
Net Total Long Term Debt	**$ 11,676,229**	**$ 12,359,623**	**$ (683,394)**	**-5.5%**

DEBT - (continued)

	2016	2015	Change Amount	%
REVENUE BONDS				
2011 Revenue Bonds	$ 3,212,048	$ 3,382,909	$ (170,861)	-5.1%
2013 Revenue Bonds	$ 4,000,000	$ 5,000,000	$ (1,000,000)	-20.0%
Rural Development Bonds	$ 1,937,749	$ 2,031,922	$ (94,173)	-4.6%
Total Revenue Bonds	**$ 9,149,797**	**$ 10,414,831**	**$ (1,265,034)**	**-12.1%**
Special Assessment Bonds	$ 1,684,000	$ 2,186,000	$ (502,000)	-23.0%
OPWC - Loan	$ 766,236	$ 302,057	$ 464,179	153.7%
Unclaimed Funds	$ 616	$ -	$ 616	#DIV/0!
Net Pension Liability	$ 2,844,176	$ 1,993,823	$ 850,353	42.6%
Long Term Debt	**$ 14,444,825**	**$ 14,896,711**	**$ (451,886)**	**-3.0%**
Reacquisition Costs 1995 Revenue Bonds				
Advance Refunding	$ (342,875)	$ (421,533)	$ 78,658	-18.7%
Current Maturities	$ (1,742,327)	$ (1,773,969)	$ 31,642	-1.8%
Net Total Long Term Debt	**$ 12,359,623**	**$ 12,701,209**	**$ (341,586)**	**-2.7%**

- The District incurred debt via OPWC interest free loans in 2017 and 2016.
- The District issued $7 million in new long term debt in 2013 to refinance the 2003 Revenue bonds.
- The 2013 Revenues Bonds was assigned an Aa3 rating by Moody's Investors Services.
- The 2011 Revenues Bonds was assigned an Aa3 rating by Moody's Investors Services.
- The payment of principal and interest of the 2011 & 2013 Revenue Bonds when due is guaranteed by a financial guaranty insurance policy issued by MBIA Insurance Corporation.

DEBT COVERAGE

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

Table 5

	2017	2016	2015
Operating Revenues	$ 7,942,334	$ 7,915,294	$ 7,957,546
Non-Operating Revenue	$ (217,106)	$ 133,440	$ 156,165
Total Revenues	**$ 7,725,228**	**$ 8,048,734**	**$ 8,113,711**
Less Operations & Maintenance Expenses	$ (4,949,688)	$ (4,713,813)	$(4,522,966)
Total Revenues Available for Debt	**$ 2,775,540**	**$ 3,334,921**	**$ 3,590,745**
Revenue Bond Debt Service - 2011 & 2013	$ 1,395,793	$ 1,409,393	$ 1,419,518
OPWC - Loan	$ 28,965	$ 18,150	$ 7,796
Revenue Bond Debt Service - Rural Development & Special Assessment - Deficit Collections	$ 264,432	$ 259,294	$ 261,256
Total Debt Service Requirements	**$ 1,689,190**	**$ 1,686,837**	**$ 1,688,570**
Coverage Ratio - Revenue Bonds			
Debts Service – 2003 & 2011	**1.99**	**2.37**	**2.53**
Combined Coverage Ratio - All Debt	**1.64**	**1.98**	**2.13**
Required Coverage Ratio			
Revenue Bonds - 2003 & 2011	1.20	1.20	1.20
OPWC - Loan	1.00	1.00	1.00
Rural Development	1.00	1.00	1.00

Does not include grant revenues or capital contribution

- 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 2011 and 2013 Revenue Bonds and a 1.0 ratio for Rural Development Bonds and OPWC Loan.
- 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.

CASH

Cash and cash equivalents on December 31, 2017 were $8.54 million. $1.56 million of these funds are restricted for specific use. Restricted cash is deposited in Debt Reserves, Bond Payments and Escrowed Construction Fund accounts. The 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 $635 thousand in net assets for the year ending December 31, 2018. 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, OH 45013.

SOUTHWEST REGIONAL WATER DISTRICT
BUTLER COUNTY
STATEMENT OF NET POSITION

As of December 31, 2017 and 2016

	2017	2016
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 6,764,722	$ 6,125,923
Accounts receivable (net of allowance for doubtful accounts of $242,079 for 2017 and $170,347 for 2016)	$ 749,795	$ 840,116
Special Assessments receivable - current portion	$ 467,000	$ 449,000
Interest receivable	$ (642,761)	$ 510,419
Inventory	$ 416,519	$ 730,648
Prepaid expenses	$ 466,138	$ 463,534
TOTAL CURRENT ASSETS	$ 8,221,413	$ 9,119,641
NONCURRENT ASSETS		
Restricted Assets:		
Equity in pooled cash and cash equivalents	$ 1,780,578	$ 1,653,706
TOTAL RESTRICTED ASSETS	$ 1,780,578	$ 1,653,706
Capital Assets:		
Water, production, treatments and distribution systems	$ 64,493,521	$ 60,626,911
Building, office and equipment	$ 5,262,032	$ 5,182,245
Total depreciable capital assets	$ 69,755,553	$ 65,809,156
Less: Accumulated depreciation	$ (35,071,323)	$ (33,443,055)
Net depreciable capital assets	$ 34,684,229	$ 32,366,101
Land	$ 234,806	$ 234,806
Contruction in progress	$ 4,793,401	$ 6,435,885
NET CAPITAL ASSETS	$ 39,712,436	$ 39,036,792
Other Assets:		
Special Assessments receivable-non current	$ 768,000	$ 507,469
TOTAL OTHER ASSETS	$ 768,000	$ 507,469
DEFERRED OUTFLOWS OF RESOURCES		
Deferred Charges	$ 144,468	$ 156,459
Pension	$ 1,336,235	$ 1,076,065
DEFERRED OUTFLOWS OF RESOURCES	$ 1,480,703	$ 1,232,524
TOTAL ASSETS AND DEFERRED OUTFLOWS	51,963,129	51,550,132

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

SOUTHWEST REGIONAL WATER DISTRICT
BUTLER COUNTY
STATEMENT OF NET POSITION

As of December 31, 2017 and 2016

	2017	2016
LIABILITIES		
CURRENT LIABILITIES		
Current Maturities of long term obligations	$ 1,753,142	$ 1,742,327
Accounts payable	$ 176,125	$ 232,077
Accrued liabilities	$ 140,316	$ 105,797
Tenant deposits	$ 74,000	$ 76,575
Accrued interest	$ 80,687	$ 87,822
TOTAL CURRENT LIABILITIES	$ 2,224,271	$ 2,244,598
LONG TERM LIABILITIES		
Deferred revenue	$ 99,461	$ 99,461
Long term obligations	$ 8,172,065	$ 9,515,447
Net Pension Liability	$ 3,504,164	$ 2,844,176
TOTAL LONG TERM LIABILITES	$ 11,775,690	$ 12,459,084
TOTAL LIABILITIES	$ 13,999,961	$ 14,703,682
DEFERRED INFLOWS OF RESOURCES		
Pension	109,867	$ 64,231
NET ASSETS		
Invested in capital assets, net of related debt	$ 29,787,229	$ 27,779,017
Restricted for debt service	$ 1,780,578	$ 1,653,706
Unrestricted	$ 6,285,496	$ 7,349,495
TOTAL NET ASSETS	$ 37,853,303	$ 36,782,218

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

SOUTHWEST REGIONAL WATER DISTRICT
BUTLER COUNTY
STATEMENTS OF REVENUE, EXPENSES, AND CHANGES IN NET POSITION
For the Years Ended December 31, 2017 and 2016

	2017		2016	
OPERATING REVENUES				
Metered Water Sales to customers	$	7,194,849	$	7,106,770
Sale of New taps	$	416,513	$	369,827
Penalties	$	142,463	$	134,798
Miscellaneous	$	188,508	$	303,899
TOTAL OPERATING REVENUES	$	7,942,334	$	7,915,293
OPERATING EXPENSES				
Operations	$	4,028,539	$	3,912,136
Maintenance	$	921,149	$	801,678
Depreciation	$	1,704,455	$	1,701,748
TOTAL OPERATING EXPENSES	$	6,654,143	$	6,415,562
OPERATING INCOME	$	1,288,190	$	1,499,732
NON OPERATING REVENUE (EXPENSES)				
Intergovernmental	$	653,392	$	408,855
Interest Income	$	(3,036)	$	132,393
Interest Expense	$	(870,604)	$	(575,844)
Other non-operating revenue (expense)	$	3,141	$	1,047
Net Other Income (Expense)	$	(217,106)	$	(33,550)
CHANGE IN NET POSITION	$	1,071,084	$	1,466,181
NET ASSETS POSITION OF YEAR	$	36,782,217	$	35,316,036
NET POSITION END OF YEAR	$	37,853,301	$	36,782,217

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

SOUTHWEST REGIONAL WATER DISTRICT
BUTLER COUNTY
STATEMENT OF CASH FLOWS
For the Years Ending December 31, 2017 and 2016

	2017	2016
Cash Flows From Operating Activities:		
Receipts from Customers	$ 7,841,111	$ 7,847,116
Receipts from others	188,508	303,899
Payments to Suppliers and Vendors	(1,733,558)	(1,972,978)
Payments to Employees	(2,685,239)	(2,549,414)
Net Cash Provided by Operating Activities	3,610,822	3,628,622
Cash Flows From Capital and related financing Activities:		
Proceeds from capital grants	653,392	451,527
Acquisition & Construction of capital assets	(2,303,912)	(1,848,448)
Payments on Borrowings	(1,754,003)	(1,785,183)
Proceeds from Debt Issuance	313,029	464,179
Collections on Special Assessments	467,000	449,000
Capital Contributions	-	-
Interest Paid	(877,739)	(582,725)
Net Cash Used By Capital Financing Activities	(3,502,232)	(2,851,650)
Cash Flows From Noncapital Financing Activities:		
Other nonoperating revenues	3,141	1,047
Net Cash Provided By Noncapital Financing Activities	3,141	1,047
Cash Flows From Investing Acqtivities:		
Interest Received	653,942	59,077
Net Cash Provided By Capital Financing Activities	653,942	59,077
Net increase/decrease in cash and cash equivalents	765,671	837,094
Cash and cash equivalents, January 1,	7,779,629	6,942,535
Cash and cash equivalents, December 31,	$ 8,545,300	$ 7,779,629
Restricted Cash	$ 1,780,578	$ 1,653,706
Unrestricted Cash	6,764,722	6,125,923
Total Cash	$ 8,545,300	$ 7,779,629
Reconciliation of Change in Net Assets to Net Cash Provided by Operating Activities:		
Operating Income	$ 1,288,190	$ 1,499,731
Adjustments to reconcile net income to net cash from operating activities:		
Depreciation Expense	1,704,455	1,701,748
(Increase) Decrease in Accounts Receivable	90,321	235,720
(Increase) Decrease in Prepaid Items	(2,604)	(30,527)
(Increase) Decrease in Materials and Supplies Inventory	314,130	(79,808)
Deferred Charges	11,991	18,038
Increase in Accounts Payable	(55,952)	130,927
Increase in Accrued Liabilities	34,519	(2,411)
Increase in Tenant Deposits	(2,575)	(13)
Deferred Outflows - Pension	(260,170)	(724,342)
Net Pension Liability	659,988	850,353
Deferred Inflows - Pension	45,636	29,203
Total Adjustments	2,539,738	2,128,889
Net Cash Provided by Operating Activities	$ 3,827,928	$ 3,628,620

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

1. NATURE OF ORGANIZATION

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

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

3. **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 2017. Amounts determined to potentially be uncollectible are set up as an allowance and

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

a corresponding entry to an expense account is recorded during the year that the accounts are determined to be potentially uncollectible.

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.

During fiscal year 2017, the District invested in STAR Ohio. STAR Ohio (the State Treasury Asset Reserve of 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 has adopted Governmental Accounting Standards Board (GASB), Statement No. 79, "Certain External Investment Pools and Pool Participants." The District measures their investment in STAR Ohio at the net asset value (NAV) per share provided by STAR Ohio. The NAV per share is calculated on an amortized cost basis that provides an NAV per share that approximates fair value.

For the fiscal year 2017, there were no limitations or restrictions on any participant withdrawals due to redemption notice periods, liquidity fees, or redemption gates. However, notice must be given 24 hours in advance of all deposits and withdrawals exceeding $25 million. STAR Ohio reserves the right to limit the transaction to $50 million, requiring the excess amount to be transacted the following business day(s), but only to the $50 million limit. All accounts of the participant will be combined for these purposes.

10. **Compensated Absences**
The District does not have any significant compensated absences.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

11. **Net Position**

Net position represents the difference between assets and deferred outflows and liabilities and deferred inflows. Net position invested in capital assets, net of related debt 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 are 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 when an expense is incurred for the purposes for which both restricted and unrestricted net assets are available.

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. **Pensions**

For purposes of measuring net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the pension plan and additions to/deductions from its fiduciary net position have been determined on the same basis as they are reported by the pension system. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. The pension systems report investments at fair value.

14. **Deferred Outflows and Inflows 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 represent a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense) until then. For the District, deferred outflows of resources include a deferred charge on refunding and for pension 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. The deferred outflows of resources related to pension is explained further in Note 7.

In additional to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized as an inflow until that time. For the District, deferred inflows of resources are reported for pension, explained further in Note 6.

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 withdrawn on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

3. CASH AND INVESTMENTS (continued)

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

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

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

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

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 & STAR Ohio Plus);

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".

3. CASH AND INVESTMENTS (continued)

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, 2017 was $8,545,300 and the bank balance was $8,534,155. Of the bank balance:

1. $497,242 as of December 31, 2017 and $496,258 as of December 31, 2016 was covered by federal depository insurance; and

2. $3,914,600 as of December 31, 2017 and 4,809,000 as of December 31, 2016 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.

3. $1,556,078 as of December 31, 2017 was deposited in trust accounts in accordance with the District's Revenue and Special Assessment Bonds Trust Agreements.

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, 2017 and 2016, the District had the following investments which mature in less than one year:

	Carrying and Fair Value		Percentage of Total Investments	
	2017	2016	2017	2016
Star Ohio Plus	545,907	541,888	13.2%	21.9%
Star Ohio	2,020,330	504,327	49.0%	20.4%
Fifth Third US Treasury – Series 1999 Reserve	415,779	413,437	10.1%	16.7%
Fifth Third US Treasury – Series 2003 Reserve	0	0	0%	0%
Fifth Third US Treasury – Series 2011 Reserve	316,314	314,529	7.7%	12.7%
Fifth Third US Treasury – Series 2013 Reserve	704,596	700,621	17.1%	28.3%
Fifth Third US Treasury – 2003 Bond Fund – Int.	0	0	0%	0%
Fifth Third US Treasury – 2003 Bond Fund – Prin.	0	0	0%	0%
Fifth Third US Treasury – 2011 Bond Fund – Int.	11,121	41	0.3%	0.0%
Fifth Third US Treasury – 2011 Bund Fund – Prin.	15,675	81	0.4%	0.0%
Fifth Third US Treasury – 2013 Bund Fund – Int.	5,773	22	0.1%	0.0%
Fifth Third US Treasury – 2013 Bund Fund – Prin.	86,821	475	2.1%	0.0%
Total Fifth Third US Treasury	1,556,079	1,429,206		
Total Investments	$ 4,122,316	$ 2,475,421		

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.

3. CASH AND INVESTMENTS (continued)

Credit Risk: Credit Risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Star Ohio Plus carries a rating of AAAm by Standard and Poor's. Ohio Law requires that STAR Ohio Plus 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 62.3% of its investments in STAR Plus/STAR Ohio.

4. CAPITAL ASSETS

The following is a schedule of capital assets at December 31, 2017:

	Balance at 12/31/2016	Additions	Retirements Disposals	Balance at 12/31/2017
Non-Depreciable:				
Land	$ 234,806			$ 234,806
Construction in Progress	$ 6,435,885	$ 2,252,795	$ 3,895,280	$ 4,793,401
Total Non-Depreciable	$ 6,670,691	$ 2,252,795	$ 3,895,280	$ 5,028,207
Wells	$ 978,346			$ 978,346
Booster Stations & Equip	$ 3,650,256	$ 12,992		$ 3,663,248
Treatment Plants	$ 10,529,587	$ 284,642		$ 10,814,229
Water Tanks & Standpipes	$ 5,950,294	$ 1,631,496		$ 7,581,790
Distribution System	$ 26,991,698	$ 1,716,031		$ 28,707,729
GIS System	$ 274,245			$ 274,245
Metered Services	$ 10,660,330	$ 219,539		$ 10,879,869
Flush Hydrants	$ 183,846			$ 183,846
6" Hydrants	$ 1,408,308	$ 1,910		$ 1,410,218
Structures & Improvements	$ 2,603,983	$ 26,526		$ 2,630,509
Office Furniture & Equipment	$ 632,357	$ 19,935		$ 652,292
Transportation/Constr. Equip	$ 1,171,763	$ 72,815	$ 86,309	$ 1,158,269
SCADA System	$ 569,866	$ 46,820		$ 616,686
Misc. Plant & Repair Equipment	$ 181,038			$ 181,038
Laboratory Equipment	$ 23,238			$ 23,238
Total Depreciable	$ 65,809,155	$ 4,032,706	$ 86,309	$ 69,755,552
Total at Historical Costs	$ 72,479,846	$ 6,285,501	$ 3,981,588	$ 74,783,759
Accumulated Depreciation:				
Wells	$ (634,562)	$ (18,668)		$ (653,230)
Booster Stations & Equip	$ (1,667,826)	$ (89,871)		$ (1,757,697)
Treatment Plants	$ (5,348,420)	$ (259,479)		$ (5,607,899)
Water Tanks & Standpipes	$ (2,850,486)	$ (192,580)		$ (3,043,066)
Distribution System	$ (13,650,992)	$ (653,094)		$ (14,304,086)
GIS System	$ (247,951)	$		$ (247,951)

4. CAPITAL ASSETS (continued)

Metered Services	$ (4,980,231)	$ (299,503)		$ (5,279,733)
Flush Hydrants	$ (103,472)	$ (4,308)		$ (107,780)
6" Hydrants	$ (569,245)	$ (33,981)		$ (603,227)
Structures & Improvements	$ (1,379,747)	$ (61,385)		$ (1,441,132)
Office Furniture & Equipment	$ (558,898)	$ (17,882)		$ (576,780)
Transportation/Constr. Equip	$ (915,664)	$ (54,088)	$ 76,187	$ (893,565)
SCADA System	$ (343,288)	$ (13,945)		$ (357,233)
Misc. Plant & Repair Equipment	$ (169,035)	$ (5,672)		$ (174,707)
Laboratory Equipment	$ (23,238)			$ (23,238)
Total Accumulated Depreciation	$ (33,443,055)	$ (1,704,456)	$ 76,187	$ (35,071,324)
Capital Assets, Net	$ 39,036,792	$ 4,581,045	$ 3,905,402	$ 39,712,435

	Balance at 12/31/2015	Additions	Retirements Disposals	Balance at 12/31/2016
Non-Depreciable:				
Land	$ 234,806			$ 234,806
Construction in Progress	$ 4,983,791	$ 1,653,093	$ 200,999	$ 6,435,885
Total Non-Depreciable	$ 5,218,597	$ 1,653,093	$ 200,999	$ 6,673,692
Wells	$ 978,346			$ 978,346
Booster Stations & Equip	$ 3,640,635	$ 9,621		$ 3,650,256
Treatment Plants	$ 10,506,297	$ 23,290		$ 10,529,587
Water Tanks & Standpipes	$ 5,950,294			$ 5,950,294
Distribution System	$ 26,991,698			$ 26,991,698
GIS System	$ 274,245			$ 274,245
Metered Services	$ 10,500,776	$ 159,554		$ 10,660,330
Flush Hydrants	$ 183,846			$ 183,846
6" Hydrants	$ 1,408,308			$ 1,408,308
Structures & Improvements	$ 2,481,251	$ 122,733		$ 2,603,984
Office Furniture & Equipment	$ 632,357			$ 632,357
Transportation/Constr. Equip	$ 1,143,763	$ 28,000		$ 1,171,763
SCADA System	$ 522,147	$ 47,719		$ 569,866
Misc. Plant & Repair Equipment	$ 175,602	$ 5,437		$ 181,039
Laboratory Equipment	$ 23,238			$ 23,238
Total Depreciable	$ 65,412,804	$ 396,354		$ 65,809,158
Total at Historical Costs	$ 70,631,400	$ 2,049,447	$ 197,999	$ 72,479,848
Accumulated Depreciation:				
Wells	$ (615,769)	$ (18,793)		$ (634,562)
Booster Stations & Equip	$ (1,578,683)	$ (89,143)		$ (1,667,826)
Treatment Plants	$ (5,091,368)	$ (257,052)		$ (5,348,420)
Water Tanks & Standpipes	$ (2,684,457)	$ (166,030)		$ (2,850,487)

4. CAPITAL ASSETS (continued)

Distribution System	$ (13,002,173)	$ (648,819)		$ (13,650,992)
GIS System	$ (225,808)	$ (22,143)		$ (247,951)
Metered Services	$ (4,684,727)	$ (295,504)		$ (4,980,231)
Flush Hydrants	$ (99,163)	$ (4,308)		$ (103,471)
6" Hydrants	$ (535,240)	$ (34,005)		$ (569,245)
Structures & Improvements	$ (1,321,279)	$ (58,468)		$ (1,379,747)
Office Furniture & Equipment	$ (533,446)	$ (25,452)		$ (558,898)
Transportation/Constr. Equip	$ (852,290)	$ (99,381)	$ 36,007	$ (915,664)
SCADA System	$ (330,668)	$ (12,620)		$ (343,288)
Misc. Plant & Repair Equipment	$ (162,996)	$ (6,039)		$ (169,035)
Laboratory Equipment	$ (23,238)			$ (23,238)
Total Accumulated Depreciation	$ (31,741,306)	$ (1,737,757)	$ 36,007	$ (33,443,056)
Capital Assets, Net	$ 38,890,094	$ 311,690	$ (164,992)	$ 39,036,792

5. LONG TERM OBLIGATIONS

Long-term obligations consist of:

Description	12/31/2016 Balance	Issued in 2017	Payments 2017	12/31/2017 Balance	Due Within One Year
USDA, Rural Development Bonds	$1,937,749		$ 100,177	$1,837,572	$ 100,177
Special Assessment Water Line Extension Bonds - Series 1997	$ 8,000		$ 8,000	$ 0	$ 0
Special Assessment Water Line Extension Bonds - Series 1999	$1,110,000		$ 350,000	$1,235,000	$ 370,000
Special Assessment Water Line Extension Bonds - Series 2000	$180,000		$ 40,000	$140,000	$ 45,000
Special Assessment Water Line Extension Bonds - Series 2002	$300,000		$ 45,000	$255,000	$ 45,000
Special Assessment Water Line Extension Bonds - Series 2007	$86,000		$ 6,000	$80,000	$ 7,000

5. LONG TERM OBLIGATIONS (continued)

Revenue Bonds Series 2011	$3,212,048		$ 175,861	$ 3,036,187	$ 180,000
OPWC – Loans					
	$766,236	$ 341,994	$ 28,965	$ 1,079,265	$ 39,779
Unclaimed Funds					
Revenue Bonds Series 2003	$ 616	$ 783		$ 1,399	
	$ 4,000,000		$ 1,000,000	$ 3,000,000	$ 1,000,000
Total before Premium and					
defeased interest	$11,600,649	$ 342,777	$ 1,754,003	$10,189,423	$ 1,786,956
Series 2003 - 1995 Bond Refunding Premium and defeased interest	($342,875)		($78,659)	($264,216)	($78,659)
Net Pension Liability					
	$ 2,844,176	$ 659,988		$ 3,504,164	
Totals					
	$14,101,950	$ 1,002,765	$1,675,344	$13,429,371	$1,708,297

Description	12/31/2015 Balance	Issued in 2016	Payments 2016	12/31/2016 Balance	Due Within One Year
USDA, Rural Development Bonds	$2,031,921		$ 94,172	$1,937,749	$ 100,177
Special Assessment Water Line Extension Bonds - Series 1996	$80,000		$ 80,000	$ 0	$ 0
Special Assessment Water Line Extension Bonds - Series 1997	$15,000		$ 7,000	$ 8,000	$ 8,000
Special Assessment Water Line Extension Bonds - Series 1999	$1,440,000		$ 330,000	$1,110,000	$ 350,000
Special Assessment Water Line Extension Bonds - Series 2000	$220,000		$ 40,000	$180,000	$ 40,000
Special Assessment Water Line Extension Bonds - Series 2002	$340,000		$ 40,000	$300,000	$ 45,000
Special Assessment Water Line Extension Bonds - Series 2007	$91,000		$ 5,000	$86,000	$ 6,000

5.LONG TERM OBLIGATIONS (continued)

Revenue Bonds Series 2011	$3,382,909		$ 170,861	$ 3,212,048	$ 175,000
Revenue Bonds Series 2013	$ 5,000,000		$ 1,000,000	$ 4,000,000	$ 1,000,000
OPWC - Loans	$ 302,057	$ 482,329	$ 18,150	$ 766,236	$ 7,796
Unclaimed Funds	$ 0	$ 616		$ 616	$ 0
Total before Premium and defeased interest	$ 12,902,887	$ 482,945	$ 1,785,183	$ 11,600,033	$ 1,742,327
Series 2003 - 1995 Bond Refunding Premium and defeased interest	($ 421,533)		($ 78,659)	($ 342,874)	($ 78,659)
Net Pension Liability	$ 1,993,823	$ 850,353		$ 2,844,176	
Totals	$ 14,475,177	$ 1,333,298	$ 1,706,524	$ 14,101,335	$ 1,663,668

As of December 31, 2017, the maturities of the principal amount of long-term debt for the five years ending

Year		Principal		Interest
2018	$	1,753,563	$	382,520
2019	$	1,795,357	$	322,964
2020	$	1,422,583	$	258,703
2021	$	390,270	$	212,421
2022	$	409,448	$	193,073
2023-2027	$	2,063,350	$	663,262
2028-2030	$	1,249,593	$	121,391
Unclaimed Funds	$	1,399	$	0
OPWC - Loans	$	1,079,265	$	0
	$	10,164,828	$	2,154,334
1995-2013 Bond Refunding Defeased interest	$	(264,216)		
2011 Bond Issue Premium	$	11,187		
Total	$	9,911,800	$	2,154,334

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

5.LONG TERM OBLIGATIONS (continued)

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. **Paid off in 2014.**

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 $1,837,572. Principal and interest paid for the current year and total customer net revenues were $223,708 and $3,123,693 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. **Paid off in 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%. **Paid off in 2017.**

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%.

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

5.LONG TERM OBLIGATIONS (continued)

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 $3,731,688. Principal and interest paid for the current year and total customer net revenues were $310,793 and $3,123,693 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 at varying rates between .85% and 2.50%. The total principal and interest remaining to be paid on the bonds is $3,140,000. Principal and interest paid for the current year and total customer net revenues were $1,085,000 and $3,123,693 respectively.

The Ohio Public Works Commission loans are for the purpose of water main replacements and water tower painting. These loans are 20 years in length and were interest free. Principal payments are made twice a year.

6. DEFINED BENEFIT PENSION PLAN

Net Pension Liability

The net pension liability reported on the statement of net position represents a liability to employees for pensions. Pensions are a component of exchange transactions—between an employer and its employees—of salaries and benefits for employee services. Pensions are provided to an employee—on a deferred-payment basis—as part of the total compensation package offered by an employer for employee services each financial period. The obligation to sacrifice resources for pensions is a present obligation because it was created as a result of employment exchanges that already have occurred.

The net pension liability represents the District's proportionate share of each pension plan's collective actuarial present value of projected benefit payments attributable to past periods of service, net of each pension plan's fiduciary net position. The net pension liability calculation is dependent on critical long-term variables, including estimated average life expectancies, earnings on investments, cost of living adjustments and others. While these estimates use the best information available, unknowable future events require adjusting this estimate annually.

Ohio Revised Code limits the District's obligation for this liability to annually required payments. The District cannot control benefit terms or the manner in which pensions are financed; however, the District does receive the benefit of employees' services in exchange for compensation including pension.

GASB Statement No. 68 assumes the liability is solely the obligation of the employer, because (1) they benefit from employee services; and (2) State statute requires all funding to come from these employers. All contributions to date have come solely from these employers (which also includes costs paid in the form of withholdings from employees). State statute requires the pension plans to amortize unfunded liabilities within 30 years. If the amortization period exceeds 30 years, each pension plan's board must propose corrective action to the State legislature. Any resulting legislative change to benefits or funding could significantly affect the net pension liability. Resulting adjustments to net pension liability would be effective when the changes are legally enforceable.

The proportionate share of each plan's unfunded benefits is presented as a long-term *net pension liability* on the accrual basis of accounting

6. DEFINED BENEFIT PENSION PLAN (continued)

Plan Description – Ohio Public Employees Retirement System (OPERS)

District employees participate 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 and the Combined Plan is a cost-sharing, multiple-employer defined benefit pension plan with defined contribution features. While members (e.g., District employees) may elect the Member-Directed Plan and the Combined Plan, all of employee members are in OPERS' Traditional Plan; therefore, the following disclosures focus on the Traditional Pension Plan.

OPERS provides retirement, disability, survivor and death benefits, and annual cost of living adjustments to members of the Traditional Plan. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code (ORC). OPERS issues a stand-alone financial report that includes financial statements, required supplementary information and detailed information about OPERS' fiduciary net position that may be obtained by visiting https://www.opers.org/financial/reports.shtml, by writing to Ohio Public Employees Retirement System, 277 East Town Street, Columbus, OH 43215-4642, or by calling 800-222-7377.

Senate Bill (SB) 343 was enacted into law with an effective date of January 7, 2013. In the legislation, members were categorized into three groups with varying provisions of the law applicable to each group. The following table provides age and service requirements for retirement and the retirement formula applied to final average salary (FAS) for the three member groups under the Traditional Pension Plan as per the reduced benefits adopted by SB 343 (see OPERS' CAFR referenced above for additional information):

Group A Eligible to retire prior to January 7, 2013 or five years after January 7, 2013	**Group B** 20 years of service credit prior to January 7, 2013 or eligible to retire ten years after January 7, 2013	**Group C** Members not in other Groups and members hired on or after January 7, 2013
State and Local	**State and Local**	**State and Local**
Age and Service Requirements: Age 60 with 60 months of service credit or Age 55 with 25 years of service credit	**Age and Service Requirements:** Age 60 with 60 months of service credit or Age 55 with 25 years of service credit	**Age and Service Requirements:** Age 57 with 25 years of service credit or Age 62 with 5 years of service credit
Formula: 2.2% of FAS multiplied by years of Service for the first 30 years and 2.5% for service years in excess of 30	**Formula:** 2.2% of FAS multiplied by year of service for the first 30 years and 2.5% for service years in excess of 30	**Formula:** 2.2% of FAS multiplied by years of service for the first 35 years and 2.5% for service years in excess of 35

Final average salary (FAS) represents the average of the three highest years of earnings over a member's career for Groups A and B. Group C is based on the average of the five highest years of earnings over a member's career.

Members who retire before meeting the age and years of service credit requirement for unreduced benefits receive a percentage reduction in the benefit amount.

When a benefit recipient has received benefits for 12 months, an annual cost of living adjustment (COLA) is provided. This COLA is calculated on the base retirement benefit at the date of retirement and is not compounded. For those retiring prior to January 7, 2013, the COLA will continue to be a 3% simple annual COLA. For those retiring subsequent to January 7, 2013, beginning in calendar year 2019, the COLA will be based on the average percentage increase in the Consumer Price Index, capped at 3%.

Funding Policy—The ORC provides statutory authority for member and employer contributions. For 2017, member contribution rates were 10% of salary and employer contribution rates were 14%. The portion of employer contributions allocated to health care for members in the Traditional Pension Plan was 1.0% during calendar year 2017 (see Note 8).

6.DEFINED BENEFIT PENSION PLAN (continued)

Employer contribution rates are actuarially determined and are expressed as a percentage of covered payroll. The District's contractually required contribution was $253,831 for 2017.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

The net pension liability for OPERS was measured as of December 31, 2016 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on the District's share of contributions to the pension plan relative to the contributions of all participating entities. The District reported a net pension liability of $3,504,164 as its proportionate share. The District's proportion was 0.015431%, a decrease in proportion of 0.00099% from the prior year, and pension expense was $699,285.

At December 31, 2017, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred (Inflows) of Resources	Net Deferred Outflows/ (Inflows) of Resources
District contributions subsequent to measurement date	$ 253,831	$ -	$ 253,831
Net difference between projected and actual investment earnings	521,851	-	521,851
Change in District's proportionate share and difference in employer contributions	-	(89,012)	(89,012)
Change in assumptions	555,804	-	555,804
Differences between expected and actual experience	4,749	(20,855)	(16,106)
	$ 1,336,235	$ (109,867)	$ 1,226,368

$253,831 reported as deferred outflows of resources related to pension resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending December 31, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

Year Ending December 31:	Deferred Outflows/ (Inflows)
2018	$ 393,331
2019	412,446
2020	182,057
2021	(15,297)
	$ 972,537

6. DEFINED BENEFIT PENSION PLAN (continued)

Actuarial Assumptions – OPERS

Actuarial valuations of an ongoing plan involve estimates of the values of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and cost trends. Actuarially determined amounts are subject to continual review or modification as actual results are compared with past expectations and new estimates are made about the future.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employers and plan members) and include the types of benefits provided at the time of each valuation. The total pension liability in the December 31, 2016, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Wage inflation	3.25%
Future salary increases, including inflation	3.25% to 10.75%, including wage inflation
COLA or Ad Hoc COLA	Pre 1/7/2013 Retirees: 3.00%, simple Post 1/7/2013 Retirees: 3.00% simple through 2018, then 2.15% simple
Investment rate of return	7.50%
Actuarial cost method	Individual entry age

** See notes to required supplementary information on change of assumptions that impacted the December 31, 2016 actuarial valuation.

Mortality rates are based on the RP-2014 Healthy Annuitant mortality table. For males, Healthy Annuitant Mortality tables were used, adjusted for mortality improvement back to the observation period base of 2006 and then established the base year as 2015. For females, Healthy Annuitant Mortality tables were used, adjusted for mortality improvements back to the observation period base year of 2006 and then established the base year as 2010. The mortality rates used in evaluating disability allowances were based on the RP-2014 Disabled mortality tables, adjusted for mortality improvement back to the observation base year of 2006 and then established the base year as 2015 for males and 2010 for females. Mortality rates for a particular calendar year for both healthy and disabled retiree mortality tables are determined by applying the MP-2015 mortality improvement scale to the above described tables.

The most recent experience study was completed for the five-year period ended December 31, 2015.

The long-term rate of return on defined benefit investment assets was determined using a building-block method in which best-estimate ranges of expected future real rates of return are developed for each major asset class. These ranges are combined to produce the long-term expected real rate of return by weighting the expected future real rates of return by the target asset allocation percentage, adjusted for inflation.

During 2016, OPERS managed investments in four investment portfolios: the Defined Benefit portfolio, the 401(h) Health Care Trust portfolio, the 115 Health Care Trust portfolio and the Defined Contribution portfolio. The 401(h) Health Care Trust portfolio was closed as of June 30, 2016. The Defined Benefit portfolio contains the investment assets of the Traditional Pension Plan, the defined benefit component of the Combined Plan and the annuitized accounts of the Member-Directed Plan. The Defined Benefit portfolio historically included the assets of the Member-Directed retiree medical accounts funded through the VEBA Trust. However, the VEBA Trust was closed as of June 30, 2016 and the net position transferred to the 115 Health Care Trust portfolio on July 1, 2016. Within the Defined Benefit portfolio, contributions into the plans are all recorded at the same time, and benefit payments all occur on the first of the month. Accordingly, the money-weighted rate of return is considered to be the same for all plans within the portfolio. The annual money-weighted rate of return expressing investment performance, net of investment expenses and adjusted for the changing amounts actually invested, for the Defined Benefit portfolio is 8.3% for 2016.

6. DEFINED BENEFIT PENSION PLAN (continued)

The allocation of investment assets with the Defined Benefit portfolio is approved by the Board of Trustees as outlined in the annual investment plan. Plan assets are managed on a total return basis with a long-term objective of achieving and maintaining a fully funded status for the benefits provided through the defined benefit pension plans. The table below displays the Board-approved asset allocation policy for 2016 and the long-term expected real rates of return:

Asset Class	Target Allocation	Weighted Average Long-Term Expected Real Rate of Return (Arithmetic)
Fixed Income	23.00%	2.75%
Domestic Equities	20.70%	6.34%
Real Estate	10.00%	4.75%
Private Equity	10.00%	8.97%
International Equities	18.30%	7.95%
Other Investments	18.00%	4.92%
Total	100.00%	5.66%

Discount Rate. The discount rate used to measure the total pension liability was 7.50%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and those of the contributing employers are made at the statutorily required rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate. The following table represents the District's proportionate share of the net pension liability calculated using the current period discount rate assumption of 7.50%, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one-percentage point lower (6.50%) and one-percentage point higher (8.50%) than the current rate:

	1% Decrease (6.50%)	Current Discount Rate of 7.50%	1% Increase (8.50%)
District's proportionate share of the net pension liability	$ 5,353,464	$ 3,504,164	$ 1,963,184

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, 2017 and December 31, 2016 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

7 ASSESSMENTS RECEIVABLE (continued)

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, 2017 and December 31, 2016 are as follows:

December 31, 2017	Total Assessed	Prepaid Assessments	County Auditor & Deferred Assessments Paid	%Collect Auditor
1994 Assessments	$ 227,778		$ 150,000	66%
1996 Assessments	$ 889,478		$ 995,000	1.12%
1997 Assessments	$ 94,579		$ 98,000	1.04%
1999 Assessments	$ 4,322,014	$ 19,093	$ 4,240,000	99%
2000 Assessments	$ 579,383	$ 12,144	$ 470,000	83%
2002 Assessments	$ 736,635	$ 8,960	$ 510,000	70%
2007 Assessments	$ 116,045		$ 46,000	40%
Total Receivable ($ 416,715)	$ 6,965,912	$ 40,197	$ 6,509,000	94%

December 31, 2016	Total Assessed	Prepaid Assessments	County Auditor & Deferred Assessments Paid	% Collect Auditor
1994 Assessments	$ 227,778		$ 150,000	66%
1996 Assessments	$ 889,478		$ 995,000	1.12%
1997 Assessments	$ 94,579		$ 90,000	95%
1999 Assessments	$ 4,322,014	$ 19,093	$ 3,890,000	90%
2000 Assessments	$ 579,383	$ 12,144	$ 430,000	74%
2002 Assessments	$ 736,635	$ 8,960	$ 465,000	63%
2007 Assessments	$ 116,045		$ 40,000	34%
Total Receivable ($865,712)	$ 6,965,912	$ 40,197	$ 6,060,000	87%

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
2017	$ 491,308	$ 483,541	98%	$ 9,366	100%
2016	$ 567,514	$ 543,575	96%	$ 35,585	102%
2015	$ 567,129	$ 543,287	96%	$ 37,548	102%
Total	$ 1,625,951	$ 1,570,403	97%	$ 82,499	102%

* Collected Delinquent Assessments include penalty and interest

8. POST EMPLOYMENT BENEFITS

Ohio Public Employees Retirement System (OPERS) administers three separate pension plans: The Traditional Pension Plan—a cost-sharing, multiple-employer defined benefit pension plan; the Member-Directed Plan—a defined contribution plan; and the Combined Plan—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 health care trust, which funds multiple health care plans including medical coverage, prescription drug coverage and deposits to a Health Reimbursement Arrangement to qualifying benefit recipients of both the Traditional Pension and the Combined plans. This trust is also used to fund health care for Member-Directed Plan participants, in the form of a Retiree Medical Account (RMA). At retirement or refund, Member-Directed Plan participants may be eligible for reimbursement of qualified medical expenses from their vested RMA balance.

In order to qualify for health care coverage, age-and-service retirees under the Traditional Pension and Combined plans must have 20 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 45. Please see the Plan Statement in the OPERS 2016 CAFR for details.

The Ohio Revised Code permits, but does not require, OPERS to provide health care to its eligible benefit recipients. Authority to establish and amend health care coverage is provided to the OPERS Board of Trustees (OPERS Board) in Chapter 145 of the Ohio Revised Code.

OPERS issues a stand-alone financial report. Interested parties may obtain a copy by visiting https://www.opers.org/financial/reports.shtml#CAFR, by writing to OPERS, 277 East Town Street, Columbus, OH 43215-4642, or by calling 614-222-5601 or 800-222-7377.

The Ohio Revised Code provides the statutory authority requiring public employers to fund health care through their contributions to OPERS. A portion of each employer's contribution to OPERS may be set aside to fund OPERS health care plans.

Employer contribution rates are expressed as a percentage of the earnable salary of active members. In 2017, State and Local employers contributed at a rate of 14.0% of earnable salary and Public Safety and Law Enforcement employers contributed at 18.1%. These are the maximum employer contribution rates permitted by the Ohio Revised Code. Active member contributions do not fund health care.

Each year, the OPERS Board determines the portion of the employer contribution rate that will be set aside to fund health care plans. The portion of employer contributions allocated to health care for members in the Traditional Pension Plan and Combined Plan was 1.0% during calendar year 2017. As recommended by OPERS' actuary, the portion of employer contributions allocated to health care beginning January 1, 2018 decreased to 0.0% for both plans. The OPERS Board is also authorized to establish rules for the retiree or their surviving beneficiaries to pay a portion of the health care provided. Payment amounts vary depending on the number of covered dependents and the coverage selected. The employer contribution as a percentage of covered payroll deposited for Member-Directed Plan participants for 2017 was 4.0%.

8. EMPLOYMENT BENEFITS (continued)

Actual employer contributions for 2017, 2016, and 2015 which were used to fund post-employment benefits were $19,535, $39,944 and $40,509, respectively.

OPERS Retirement Board Implements it Health Care Preservation Plan

The Health Care Preservation Plan (HCPP) adopted by the OPERS Board of Trustees September 9, 2004, was effective January 1, 2007. Member and employer contribution rates for state and local employers increased January 1, of each year from 2006 to 2008. Rates for law and public safety employers increased over a six year period beginning on January 1, 2006, with a final rate increase on January 1, 2011. These rate increases allowed additional funds to be allocated to the health care plan.

9. 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 year 2017 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.

10. IMPLEMENTATION OF NEW ACCOUNTING PRINCIPLES

For the fiscal year ended June 30, 2017, the District has implemented Governmental Accounting Standards Board (GASB) Statement No. 72, *Fair Value Measurement and Application*, GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68,* GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments* and GASB Statement No. 79, *Certain External Investment Pools and Pool Participants.*

GASB Statement No. 72 clarifies the definition of fair value for financial reporting purposes, establishes general principles for measuring fair value, provides additional fair value application guidance, and enhances disclosures about fair value measurements. These changes were incorporated in the District's fiscal year 2017 note disclosures; however, there was no effect on beginning net position/fund balance.

GASB Statement No. 73 establishes requirements for defined benefit pensions that are not within the scope of GASB Statement No. 68 as well as for the assets accumulated for purposes of providing those pensions. In addition, it establishes requirements for defined contribution pensions that are not within the scope of Statement 68. It also clarifies the application of certain provisions of GASB Statements 67 and 68. The implementation of GASB Statement No. 73 did not have an effect on the financial statements of the District.

GASB Statement No. 76 reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and non-authoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. The implementation of GASB Statement No. 76 did not have an effect on the financial statements of the District.

For Fiscal year 2017, the District has implemented GASB Statement No. 79, "Certain External Investment Pools and Pool Participants." GASB Statement No. 79 establishes accounting and financial reporting standards for qualifying external investment pools that elect to measure for financial reporting purposes all of their investments at amortized cost. This Statement provides accounting and financial reporting guidance and also establishes additional note disclosure requirements for governments that participate in those pools. The District participates in STAR Ohio which implemented GASB Statement No. 79 for fiscal year 2017. The District incorporated the corresponding GASB 79 guidance into their fiscal year 2017 financial statements; however, there was no effect on beginning net position/fund balance.

SOUTHWEST REGIONAL WATER DISTRICT
BUTLER COUNTY, OH

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF THE DISTRICT"S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
OHIO PUBLIC EMPLOYEES RETIREMENT SYSTEM - TRADITIONAL PENSION PLAN
LAST FOUR MEASUREMENT YEARS (1)(2)

	2016	2015	2014	2013
District's Proportion of the Net Pension Liability	0.015432%	0.016420%	0.016531%	0.016531%
District's Proportonate Share of the Net Pension Liability	$ 3,504,164	$ 2,844,176	$ 1,993,823	$ 1,948,790
District's Covered Payroll	$ 1,996,000	$ 2,044,492	$ 2,026,867	$ 1,855,569
District's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	175.56%	139.11%	98.37%	105.02%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	77.25%	81.08%	86.45%	86.36%

(1) Information prior to 2014 was not available. The District will continue to present information for years available until a full ten-year trend is compiled.

(2) Amounts presented for each year were determined as of the District's measurement date, which is the prior year-end.

Notes to Schedule:

Change in assumptions. In 2017, changes in assumptions were made based upon an updated experience study that was completed for the five-year period ended December 31, 2015. Significant changes included a reduction of the discount rate from 8.0% to 7.5%, a reduction in the wage inflation rate from 3.75% to 3.25%, and transition from the RP-2000 mortality tables to the RP-2014 mortality tables.

This page intentionally left blank.

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

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 year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated October 4, 2018.

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*.

Corporate Centre of Blue Ash, 11117 Kenwood Road, Blue Ash, Ohio 45242
Phone: 513-361-8550 or 800-368-7419 Fax: 513-361-8577
www.ohioauditor.gov

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 report is not suitable for any other purpose.

Dave Yost
Auditor of State

Columbus, Ohio

October 4, 2018

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
NOVEMBER 8, 2018

88 East Broad Street, Fourth Floor, Columbus, Ohio 43215-3506
Phone: 614-466-4514 or 800-282-0370 Fax: 614-466-4490
www.ohioauditor.gov