

428 Second St.  
Marietta, OH 45750  
740.373.0056

1907 Grand Central Avenue  
Vienna, WV 26105  
304.422.2203

104 South Sugar St.  
St. Clairsville, OH 43950  
740.695.1569



Certified Public Accountants, A.C.

**SOUTHWEST REGIONAL WATER DISTRICT  
BUTLER COUNTY  
Regular Audit  
For the Years Ended December 31, 2015 and 2014**

[www.perrycpas.com](http://www.perrycpas.com)

*...“bringing more to the table”*

Tax– Accounting – Audit – Review – Compilation – Agreed Upon Procedure – Consultation – Bookkeeping – Payroll  
Litigation Support – Financial Investigations

Members: American Institute of Certified Public Accountants

- Ohio Society of CPAs • West Virginia Society of CPAs • Association of Certified Fraud Examiners •
- Association of Certified Anti - Money Laundering Specialists •





# Dave Yost • Auditor of State

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

We have reviewed the *Independent Auditor's Report* of the Southwest Regional Water District, Butler County, prepared by Perry & Associates, Certified Public Accountants, A.C., for the audit period January 1, 2014 through December 31, 2015. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Southwest Regional Water District is responsible for compliance with these laws and regulations.

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

Dave Yost  
Auditor of State

March 24, 2017

**This page intentionally left blank.**

**SOUTHWEST REGIONAL WATER DISTRICT  
BUTLER COUNTY**

**TABLE OF CONTENTS**

TITLE	PAGE
Independent Auditor’s Report .....	1
Management’s Discussion and Analysis .....	3
Basic Financial Statements:	
Statements of Net Position.....	10
Statements of Revenues, Expenses, and Changes in Net Position.....	11
Statements of Cash Flows.....	12
Notes to the Basic Financial Statements.....	13
Required Supplementary Information:	
Schedule of the District’s Proportionate Share of the Net Pension Liability – Ohio Public Employees Retirement System – Traditional Pension Plan.....	32
Schedule of Contributions – Ohio Public Employees Retirement System – Traditional Pension Plan.....	33
Independent Auditor’s Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by <i>Government Auditing Standards</i> .....	34
Schedule of Audit Findings .....	36
Schedule of Prior Audit Finding.....	38

**This page intentionally left blank.**



428 Second St.  
Marietta, OH 45750  
740.373.0056

1907 Grand Central Ave.  
Vienna, WV 26105  
304.422.2203

104 South Sugar St.  
St. Clairsville, OH 43950  
740.695.1569

## INDEPENDENT AUDITOR'S REPORT

October 31, 2016

Southwest Regional Water District  
Butler County  
3640 Old Oxford Road  
Hamilton, OH 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, 2015 and 2014, 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 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 opinion.



***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Southwest Regional Water District, Butler County as of December 31, 2015 and 2014, and the changes in its financial position and its cash flows for the years then ended in accordance with the accounting principles generally accepted in the United States of America.

***Emphasis of Matter***

As discussed in Note 7 to the financial statements, during the year ended December 31, 2015, the District adopted Governmental Accounting Standard Board's (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. We did not modify our opinion regarding this matter.

***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 the schedule 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 31, 2016, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.



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





## **MANAGEMENT DISCUSSION AND ANALYSIS** **(Unaudited)**

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

### **FINANCIAL HIGHLIGHTS**

- The total assets of the District exceeded total liabilities on December 31, 2015 by \$35.32 million and \$35.12 million on December 31, 2014.
- The District’s net position increased \$1.90 million in 2015.
- The District’s Operating Revenues increased by \$20.36 thousand in 2015 and increased by \$148.59 thousand in 2014 with Operating and Maintenance Expenses decreasing \$52.71 thousand in 2015 and decreasing \$227.42 thousand in 2014.

### **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 Liabilities. This statement provides information about the nature and amounts of investments in resources (assets) owned by the District, and obligations owed by the District (liabilities). The District’s net position (equity) is the difference between assets and liabilities.

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

The **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 POSITION**

Table 1 summarizes the net position of the District. Capital assets are reported less accumulated depreciation. Net investment in capital assets are capital assets less outstanding debt that was used to acquire those assets.

**TABLE 1**

	2014		Change	
	2015	(Restated)	Amount	%
Current and Other Assets	\$ 10,890,038	\$ 10,416,238	\$ 473,800	4.5%
Capital Assets	38,890,093	38,989,747	(99,654)	-0.3%
<b>Total Assets</b>	<b>49,780,131</b>	<b>49,405,985</b>	<b>374,146</b>	<b>0.8%</b>
Deferred Charges on Refunding	174,497	193,685	(19,188)	-9.9%
Pension	351,723	-	351,723	100.0%
<b>Total Deferred Outflows</b>	<b>526,220</b>	<b>193,685</b>	<b>332,535</b>	<b>171.7%</b>
Current Liabilities	2,155,896	2,166,927	(11,031)	-0.5%
Long Term Liabilities	12,799,390	12,308,270	491,120	4.0%
<b>Total Liabilities</b>	<b>14,955,286</b>	<b>14,475,197</b>	<b>480,089</b>	<b>3.3%</b>
Pension	35,028	-	35,028	100.0%
<b>Total Deferred Inflows</b>	<b>35,028</b>	<b>-</b>	<b>35,028</b>	<b>100.0%</b>
Net Investment in Capital Assets	26,583,236	25,240,195	1,343,041	5.3%
Restricted	1,782,226	1,781,797	429	0.0%
Unrestricted	6,950,575	8,102,481	(1,151,906)	-14.2%
<b>Total Net Position</b>	<b>\$ 35,316,037</b>	<b>\$ 35,124,473</b>	<b>\$ 191,564</b>	<b>0.5%</b>

	2014		Change	
	(Restated)	2013	Amount	%
Current and Other Assets	\$ 10,416,238	\$ 9,540,851	\$ 875,387	9.2%
Capital Assets	38,989,747	40,224,343	(1,234,596)	-3.1%
<b>Total Assets</b>	<b>49,405,985</b>	<b>49,765,194</b>	<b>(359,209)</b>	<b>-0.7%</b>
Deferred Charges on Refunding	193,685	219,697	(26,012)	-11.8%
<b>Total Deferred Outflows</b>	<b>193,685</b>	<b>219,697</b>	<b>(26,012)</b>	<b>-11.8%</b>
Current Liabilities	2,166,927	2,129,443	37,484	1.8%
Long Term Liabilities	12,308,270	13,910,168	(1,601,898)	-11.5%
<b>Total Liabilities</b>	<b>14,475,197</b>	<b>16,039,611</b>	<b>(1,564,414)</b>	<b>-9.8%</b>
Net Investment in Capital Assets	25,240,195	24,923,110	317,085	1.3%
Restricted	1,781,797	1,873,470	(91,673)	-4.9%
Unrestricted	8,102,481	7,148,700	953,781	13.3%
<b>Total Net Position</b>	<b>\$ 35,124,473</b>	<b>\$ 33,945,280</b>	<b>\$ 1,179,193</b>	<b>3.5%</b>

The District's net position increased \$191.56 thousand in 2015. The increase is a result of a slight decrease in operating expenses and slight increase in new connections and miscellaneous revenue. The District's net position increased \$1.18 million in 2014. The increase is a result of a restatement involving the District's debt balance. The District incurred new OPWC interest free debt in 2015, 2014 and 2013. The District incurred \$7,000,000 of new long term debt in 2013 to refund the 2003 bonds.

### STATEMENT OF REVENUES AND EXPENSES (CHANGES IN NET POSITION)

Table 2 summarizes the changes in revenues and expenses and the resulting change in net position.

<b>TABLE 2</b>				
	<b>2015</b>	<b>2014 (Restated)</b>	<b>Change Amount</b>	<b>%</b>
Operating Revenues	\$ 7,957,548	\$ 7,937,185	\$ 20,363	0.3%
<b>Total Revenues</b>	<b>7,957,548</b>	<b>7,937,185</b>	<b>20,363</b>	<b>0.3%</b>
Operating Expenses	3,893,067	3,907,717	(14,650)	-0.4%
Maintenance Expenses	629,899	667,958	(38,059)	-5.7%
Depreciation Expense	1,711,949	1,706,462	5,487	0.3%
<b>Total Expenses</b>	<b>6,234,915</b>	<b>6,282,137</b>	<b>(47,222)</b>	<b>-0.8%</b>
Operating Income	1,722,633	1,655,048	67,585	4.1%
Non-Operating Revenues	786,659	217,206	569,453	262.2%
Non-Operating Expenses	(612,162)	(686,614)	74,452	-10.8%
<b>Change in Net Position</b>	<b>1,897,130</b>	<b>1,185,640</b>	<b>711,490</b>	<b>60.0%</b>
<b>Net Position at Beginning of Year</b>	<b>33,418,907</b>	<b>N/A</b>	<b>N/A</b>	<b>N/A</b>
<b>Net Position at End of Year</b>	<b>\$ 35,316,037</b>	<b>\$ 33,418,907</b>	<b>\$ 1,897,130</b>	<b>5.7%</b>

	<b>2014</b>	<b>2013</b>	Change	
	<b>(Restated)</b>	<b>(Restated)</b>	Amount	%
Operating Revenues	\$ 7,937,185	\$ 7,788,591	\$ 148,594	1.9%
<b>Total Revenues</b>	<b>7,937,185</b>	<b>7,788,591</b>	<b>148,594</b>	<b>1.9%</b>
Operating Expenses	3,907,717	4,152,100	(244,383)	-5.9%
Maintenance Expenses	667,958	650,999	16,959	2.6%
Depreciation Expense	1,706,462	1,685,432	21,030	1.2%
<b>Total Expenses</b>	<b>6,282,137</b>	<b>6,488,531</b>	<b>(206,394)</b>	<b>-3.2%</b>
Operating Income	1,655,048	1,300,060	354,988	27.3%
Non-Operating Revenues	217,206	723,651	(506,445)	-70.0%
Non-Operating Expenses	(686,614)	(934,229)	247,615	-26.5%
<b>Change in Net Position</b>	<b>1,185,640</b>	<b>1,089,482</b>	<b>96,158</b>	<b>8.8%</b>
<b>Net Position at Beginning of Year</b>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>
<b>Net Position at End of Year</b>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>

Total operating revenues increased \$20.36 thousand in 2015 due to a slight increase in new connections and an increase in miscellaneous revenue. Total operating revenues increased \$148.59 thousand in 2014 due to an increase in metered water sales and a slight increase in new connections. Total operating and maintenance expenses (excluding depreciation) decreased \$52.71 thousand in 2015. Total operating and maintenance expenses (excluding depreciation) decreased \$227.4 thousand in 2014. The total change in net position in 2015 was an increase of \$191.56 thousand.

## CAPITAL ASSETS

The District had \$70.63 million invested in capital assets (before depreciation) at the end of 2015, \$69.06 million in 2014 and \$68.63 million in 2013, as shown in Table 3. This amount is an increase of \$1,576.3 (2.3%) thousand in 2015 and \$376.6 thousand (0.5%) in 2014 from the previous year.

**Table 3**

	<b>2015</b>	<b>2014</b>	<b>Change Amount</b>	<b>%</b>
Land	\$ 234,806	\$ 234,806	\$ -	0.0%
Construction in Progress	4,983,792	3,587,841	1,395,951	38.9%
Wells	978,346	978,346	-	0.0%
Booster Stations and Equipment	3,640,635	3,623,633	17,002	0.5%
Treatment Plants	10,506,297	10,555,968	(49,671)	-0.5%
Water Tanks and Standpipes	5,950,294	5,886,117	64,177	1.1%
Distribution Systems	26,991,698	26,989,563	2,135	0.0%
GIS Systems	274,245	274,245	-	0.0%
Metered Services	10,500,776	10,362,202	138,574	1.3%
Flush Hydrants	183,846	183,846	-	0.0%
6" Hydrants	1,408,307	1,410,443	(2,136)	-0.2%
Structures and Improvements	2,481,251	2,475,601	5,650	0.2%
Office Furniture and Equipment	632,357	624,183	8,174	1.3%
Transportation/Construction Equip.	1,143,763	1,147,330	(3,567)	-0.3%
SCADA System	522,147	522,147	-	0.0%
Misc. Plant and Repair Equipment	175,602	175,602	-	0.0%
Laboratory Equipment	23,238	23,238	-	0.0%
Totals before Depreciation	70,631,400	69,055,111	1,576,289	2.3%
Accumulated Depreciation	(31,741,307)	(30,065,364)	(1,675,943)	5.6%
<b>Total Capital Assets</b>	<b>\$ 38,890,093</b>	<b>\$ 38,989,747</b>	<b>\$ (99,654)</b>	<b>-0.3%</b>

	<b>2014</b>	<b>2013</b>	<b>Change Amount</b>	<b>%</b>
Land	\$ 234,806	\$ 234,806	\$ -	0.0%
Construction in Progress	3,587,841	3,372,401	215,440	6.4%
Wells	978,346	978,346	-	0.0%
Booster Stations and Equipment	3,623,633	3,612,652	10,981	0.3%
Treatment Plants	10,555,968	10,555,968	-	0.0%
Water Tanks and Standpipes	5,886,117	5,886,117	-	0.0%
Distribution Systems	26,989,563	26,989,563	-	0.0%
GIS Systems	274,245	274,245	-	0.0%
Metered Services	10,362,202	10,269,293	92,909	0.9%
Flush Hydrants	183,846	183,846	-	0.0%
6" Hydrants	1,410,443	1,410,443	-	0.0%
Structures and Improvements	2,475,601	2,456,695	18,906	0.8%
Office Furniture and Equipment	624,183	624,675	(492)	-0.1%
Transportation/Construction Equip.	1,147,330	1,055,047	92,283	8.7%
SCADA System	522,147	522,147	-	0.0%
Misc. Plant and Repair Equipment	175,602	175,602	-	0.0%
Laboratory Equipment	23,238	23,238	-	0.0%
Totals before Depreciation	69,055,111	68,625,084	430,027	0.6%
Accumulated Depreciation	(30,065,364)	(28,400,741)	(1,664,623)	5.9%
<b>Total Capital Assets</b>	<b>\$ 38,989,747</b>	<b>\$ 40,224,343</b>	<b>\$ (1,234,596)</b>	<b>-3.1%</b>

## 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**

	<b>2015</b>	<b>Restated 2014</b>	<b>Change Amount</b>	<b>%</b>
<b>Revenue Bonds</b>				
2013 Revenue Bonds	\$ 5,000,000	\$ 6,000,000	\$ (1,000,000)	-16.7%
2011 Revenue Bonds	3,382,906	3,548,767	(165,861)	-4.7%
Rural Development Bonds	2,031,924	2,120,454	(88,530)	-4.2%
Total Revenue Bonds	10,414,830	11,669,221	(1,254,391)	-10.7%
Special Assessment Bonds	2,186,000	2,663,000	(477,000)	-17.9%
Ohio Public Works Commission	302,057	111,207		
Long Term Debt	12,902,887	14,443,428	(1,540,541)	-10.7%
Less:				
Reacquisition Costs:				
Advance Refunding	(421,533)	(500,191)	78,658	-15.7%
Current Maturities	(1,775,248)	(1,734,428)	(40,820)	2.4%
Total Long Term Debt	\$ 10,706,106	\$ 12,208,809	\$ (1,502,703)	-12.3%
	<b>Restated 2014</b>	<b>Restated 2013</b>	<b>Change Amount</b>	<b>%</b>
<b>Revenue Bonds</b>				
2013 Revenue Bonds	\$ 6,000,000	\$ 7,000,000	\$ (1,000,000)	100.0%
2011 Revenue Bonds	3,548,767	3,709,627	(160,860)	-4.3%
Rural Development Bonds	2,120,454	2,203,676	(83,222)	-3.8%
Total Revenue Bonds	11,669,221	12,913,303	(1,244,082)	-9.6%
Special Assessment Bonds	2,663,000	3,130,000	(467,000)	-14.9%
Ohio Public Works Commission	111,207	68,888	42,319	61.4%
Long Term Debt	14,443,428	16,112,191	(1,668,763)	-10.4%
Less:				
Reacquisition Costs:				
Advance Refunding	(500,191)	(584,814)	84,623	-14.5%
Current Maturities	(1,734,428)	(1,710,223)	(24,205)	1.4%
Total Long Term Debt	\$ 12,208,809	\$ 13,817,154	\$ (1,608,345)	-11.6%

The District incurred new OPWC interest free debt in 2015, 2014 and 2013. The District incurred \$7,000,000 of new long term debt in 2013 to refund the 2003 bonds. 2014 and 2013 long-term debt balances were restated to include Ohio Public Works Commission debt outstanding previously issued and to remove the advance from the Ohio Water and Sewer Rotary Commission that was no longer payable. See Note 10 for more detail.

## **CASH**

Cash and cash equivalents on December 31, 2015 were \$6.9 million. \$1.78 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 \$886 thousand in net position for the year ending December 31, 2016. Additional customer revenues, connection fees, along with continued containment of operating and maintenance expenses will contribute to this increase. Approval has been received from the Ohio Public Works Commission for Issue I grants for continued improvements of the District's water tanks and mains. Customer growth and capital contributions from developers are expected to only slightly increase during a continued sluggish housing market.

## **CONTACT INFORMATION**

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

**SOUTHWEST REGIONAL WATER DISTRICT**  
**BUTLER COUNTY**  
**STATEMENTS OF NET POSITION**  
As of December 31, 2015 and 2014

	<b>2015</b>	<b>2014</b> <b>(Restated)</b>
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and Cash Equivalents	\$ 5,160,310	\$ 4,331,063
Accounts Receivable (Net of Allowance for Doubtful Accounts)	1,075,836	977,676
Special Assessments Receivable - Current Portion	502,000	477,000
Accrued Interest Receivable	437,104	365,525
Inventory	650,840	685,922
Prepaid Expenses	433,007	454,040
<b>TOTAL CURRENT ASSETS</b>	<b>8,259,097</b>	<b>7,291,226</b>
<b>NONCURRENT ASSETS</b>		
Restricted Assets:		
Equity in Pooled Cash and Cash Equivalents	1,782,226	1,781,797
<b>TOTAL RESTRICTED ASSETS</b>	<b>1,782,226</b>	<b>1,781,797</b>
Capital Assets:		
Water, Production, Treatments and Distribution Systems	60,434,445	60,264,363
Building, Office and Equipment	4,978,357	4,968,101
Total Depreciable Capital Assets	65,412,802	65,232,464
Less: Accumulated Depreciation	(31,741,307)	(30,065,364)
Net Depreciable Capital Assets	33,671,495	35,167,100
Land	234,806	234,806
Construction in Progress	4,983,792	3,587,841
<b>NET CAPITAL ASSETS</b>	<b>38,890,093</b>	<b>38,989,747</b>
Other Assets:		
Special Assessments Receivable-Non Current	848,715	1,343,215
<b>TOTAL OTHER ASSETS</b>	<b>848,715</b>	<b>1,343,215</b>
<b>TOTAL ASSETS</b>	<b>49,780,131</b>	<b>49,405,985</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Deferred Charges on Refunding	174,497	193,685
Pension	351,723	-
<b>TOTAL DEFERRED OUTFLOWS OF RESOURCES</b>	<b>526,220</b>	<b>193,685</b>
<b>TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>	<b>\$ 50,306,351</b>	<b>\$ 49,599,670</b>
<b>LIABILITIES</b>		
<b>CURRENT LIABILITIES</b>		
Accounts Payable	\$ 101,150	\$ 155,390
Accrued Liabilities	108,208	102,200
Tenant Deposits	76,587	74,965
Accrued Interest	94,703	99,944
Current Maturities of Long Term Obligations	1,775,248	1,734,428
<b>TOTAL CURRENT LIABILITIES</b>	<b>2,155,896</b>	<b>2,166,927</b>
<b>LONG TERM LIABILITIES</b>		
Unearned Revenue	99,461	99,461
Long Term Obligations	10,706,106	12,208,809
Net Pension Liability	1,993,823	-
<b>TOTAL LONG TERM LIABILITES</b>	<b>12,799,390</b>	<b>12,308,270</b>
<b>TOTAL LIABILITIES</b>	<b>14,955,286</b>	<b>14,475,197</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Pension	35,028	-
<b>TOTAL DEFERRED INFLOWS OF RESOURCES</b>	<b>35,028</b>	<b>-</b>
<b>NET POSITION</b>		
Net Investment in Capital Assets	26,583,236	25,240,195
Restricted	1,782,226	1,781,797
Unrestricted	6,950,575	8,102,481
<b>TOTAL NET POSITION</b>	<b>35,316,037</b>	<b>35,124,473</b>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION</b>	<b>\$ 50,306,351</b>	<b>\$ 49,599,670</b>

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



**SOUTHWEST REGIONAL WATER DISTRICT  
BUTLER COUNTY  
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION**  
For the Years Ended December 31, 2015 and 2014

	<u>2015</u>	<u>2014 (Restated)</u>
<b>OPERATING REVENUES</b>		
Metered Water Sales to Customers	\$ 7,133,915	\$ 7,204,370
Sale of New Taps	358,585	351,594
Penalties	150,183	155,235
Miscellaneous	314,865	225,986
<b>TOTAL OPERATING REVENUES</b>	<u>7,957,548</u>	<u>7,937,185</u>
<b>OPERATING EXPENSES</b>		
Operations	3,893,067	3,907,717
Maintenance	629,899	667,958
Depreciation	1,711,949	1,706,462
<b>TOTAL OPERATING EXPENSES</b>	<u>6,234,915</u>	<u>6,282,137</u>
<b>OPERATING INCOME</b>	1,722,633	1,655,048
<b>NON-OPERATING REVENUES (EXPENSES)</b>		
Intergovernmental	630,494	41,558
Interest Income	151,567	175,574
Interest Expense	(612,162)	(686,614)
Other Non-Operating Revenue (Expense)	4,598	74
<b>NET NON-OPERATING REVENUES (EXPENSES)</b>	<u>174,497</u>	<u>(469,408)</u>
<b>CHANGE IN NET POSITION</b>	1,897,130	1,185,640
<b>NET POSITION, BEGINNING OF YEAR (RESTATED)</b>	<u>33,418,907</u>	<u>33,938,833</u>
<b>NET POSITION, END OF YEAR</b>	<u>\$ 35,316,037</u>	<u>\$ 35,124,473</u>

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

**SOUTHWEST REGIONAL WATER DISTRICT**  
**BUTLER COUNTY**  
**STATEMENTS OF CASH FLOWS**  
For the Years Ended December 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
<b>Cash Flows From Operating Activities:</b>		
Receipts from Customers	\$ 7,544,523	\$ 7,655,754
Receipts from Others	314,865	225,986
Payments to Suppliers and Vendors	(1,812,425)	(1,967,555)
Payments to Employees	(2,710,386)	(2,559,435)
Net Cash Provided by Operating Activities	<u>3,336,577</u>	<u>3,354,750</u>
<b>Cash Flows From Capital and Related Financing Activities:</b>		
Proceeds from Capital Grants	630,494	41,558
Acquisition & Construction of Capital Assets	(1,533,535)	(417,797)
Proceeds from Borrowings on Long-Term Debt	198,646	42,319
Payments on Borrowings	(1,739,187)	(1,711,082)
Collections on Special Assessments	469,500	471,231
Interest Paid	(617,404)	(685,220)
Net Cash Used By Capital and Related Financing Activities	<u>(2,591,486)</u>	<u>(2,258,991)</u>
<b>Cash Flows From Noncapital Financing Activities:</b>		
Other Non Operating Revenues	4,596	74
Net Cash Provided By Noncapital Financing Activities	<u>4,596</u>	<u>74</u>
<b>Cash Flows From Investing Activities:</b>		
Interest Received	79,989	103,219
Net Cash Provided By Capital Financing Activities	<u>79,989</u>	<u>103,219</u>
Net Increase/(Decrease) in Cash and Cash Equivalents	829,676	1,199,052
Cash and Cash Equivalents, January 1,	6,112,860	4,913,808
Cash and Cash Equivalents, December 31,	<u>\$ 6,942,536</u>	<u>\$ 6,112,860</u>
Restricted Cash	\$ 1,782,226	\$ 1,781,797
Unrestricted Cash	5,160,310	4,331,063
Total Cash	<u>\$ 6,942,536</u>	<u>\$ 6,112,860</u>
<b>Reconciliation of Change in Net Assets to Net Cash Provided by Operating Activities:</b>		
Operating Income	\$ 1,722,633	\$ 1,655,048
Adjustments to Reconcile Net Income to Net Cash from Operating Activities:		
Depreciation Expense	1,711,949	1,706,462
(Increase) Decrease in Accounts Receivable	(98,160)	(55,445)
(Increase) Decrease in Prepaid Expenses	21,033	(4,489)
(Increase) Decrease in Inventory	35,082	15,277
(Increase) Decrease in Deferred Outflows - Pension	(108,599)	-
(Increase) Decrease in Deferred Charges	19,188	26,012
Increase (Decrease) in Accounts Payable	(54,240)	25,091
Increase (Decrease) in Accrued Liabilities	6,008	(16,366)
Increase (Decrease) in Tenant Deposits	1,622	3,160
Increase (Decrease) in Net Pension Liability	45,033	-
Increase (Decrease) in Deferred Inflows - Pension	35,028	-
Total Adjustments	<u>1,613,944</u>	<u>1,699,702</u>
Net Cash Provided by Operating Activities	<u>\$ 3,336,577</u>	<u>\$ 3,354,750</u>

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS

For the Years Ended December 31, 2015 and 2014

---

**1. NATURE OF ORGANIZATION**

Southwest Regional Water District (hereafter referred to as the District) was created, September 1, 1992 by the Court of Common Pleas of Butler County, Ohio to provide water services to the residents of Butler County in accordance with the provisions of Section 6119.01 of the Revised Code. The District 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 the District 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. The District 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 the District 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 District is the Enterprise Fund.

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

2. **Basis of Accounting**

The accompanying financial statements were prepared on the accrual basis of accounting, whereby revenues and expenses are recognized in the period earned or incurred. The financial statements of the District have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental and financial reporting principles.

3. **Budgetary Process**

Annually, the District 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. The District has set up an allowance for doubtful accounts for fiscal year 2015. Amounts determined to potentially be uncollectible are set up as an allowance and a corresponding entry to an expense account is recorded during the year that the accounts are determined to be potentially uncollectible. Allowance for uncollectible amounts was \$147,361 for 2015 and \$129,852 for 2014.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS

For the Years Ended December 31, 2015 and 2014

---

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**6. Restricted Assets**

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

**7. Capital Assets**

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

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

**8. Cash and Cash Equivalents**

For purposes of the statement of cash flows, the District considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

Except for nonparticipating investment contracts, investments are reported at fair value, which is based on quoted market prices. Nonparticipating investment contracts such as non-negotiable certificates of deposits are reported at cost.

STAR Ohio Plus 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 Plus is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio Plus are valued at STAR Ohio Plus' share price which is the price the investment could be sold for on December 31, 2015.

**9. Compensated Absences**

The District does not have any significant compensated absences.

**10. Net Position**

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

**11. 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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS

For the Years Ended December 31, 2015 and 2014

---

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**12. Provision for Income Tax**

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

**13. Deferred Inflows and Outflows of Resources**

Deferred outflows of resources represent a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expenditures/expenses) until then. The District recorded deferred outflows for a deferred charge on refunding and pensions. 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 relating to pensions are explained in Note 7. The District reports a deferred inflow of resources which represents an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenues) until that time. For the District these amounts consisted of pensions explained in Note 7.

**14. Pensions**

For purposes of measuring the 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 plans and additions to/deductions from their fiduciary net position have been determined on the same basis as they are reported by the pension systems. For this purpose, benefits 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.

**15. Comparative Financial Statements**

The District has presented comparative financial statements in the accompanying financial statements. Since the District implemented GASB 68 and GASB 71 for fiscal year 2015, the 2014 financial statements are presented for comparative purposes, but have not been restated for GASB 68 and GASB 71 since information was not available to restate fiscal year 2014.

**3. CASH AND INVESTMENTS**

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

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

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

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;

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

NOTES TO THE BASIC FINANCIAL STATEMENTS

For the Years Ended December 31, 2015 and 2014

---

**3. CASH AND INVESTMENTS (Continued)**

2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the federal national mortgage association, federal home loan bank, federal farm credit bank, federal home loan mortgage corporation, government national mortgage association, and student loan marketing association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations for the State of Ohio; its political subdivisions, or other units or agencies of this State or its political subdivisions;
5. Time certificates of deposits or savings or deposit accounts, including, but not limited to, passbook accounts;
6. No-load money market mutual funds consisting exclusively of obligations described in items (1) and (2) of this footnote and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
7. The State Treasurer's investment pool (STAR Ohio Plus);
8. Securities lending agreements in which the District lends securities and the eligible institution agrees to exchange either securities described in division (1) or (2), or cash, or both securities and cash, equal value for equal value;
9. High grade commercial paper in an amount not to exceed five percent of the District's total average portfolio;
10. Bankers' acceptances and commercial paper notes for a period not to exceed 270 days in an amount not to exceed 10% of the District's average portfolio.

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

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

Deposits – Custodial credit risk for deposits is the risk that in the event of bank failure, the District will not be able to recover deposits or collateral securities that are in the possession of an outside party. The carrying amount of the District's deposits as of December 31, 2015 and 2014 were \$4,843,883 and \$4,015,707, respectively, and the bank balances as of December 31, 2015 and 2014 were \$4,732,544 and \$3,993,769, respectively. The District also had cash on hand of \$1,100.

Investments – As of December 31, 2015 and 2014, the District had the following investments which mature in less than one year:

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

NOTES TO THE BASIC FINANCIAL STATEMENTS

For the Years Ended December 31, 2015 and 2014

**3. CASH AND INVESTMENTS (Continued)**

	<u>Carrying and Fair Value</u>		<u>Percentage of Total Investments</u>	
	2015	2014	2015	2014
Star Ohio Plus	\$539,746	\$538,755	25.7%	25.7%
Fifth Third US Treasury – Series 1999 Reserve	413,117	413,071	19.7%	19.7%
Fifth Third US Treasury – Series 2011 Reserve	314,286	314,250	15.0%	15.0%
Fifth Third US Treasury – Series 2013 Reserve	700,079	700,000	33.4%	33.4%
Fifth Third US Treasury – 2011 Bond Fund – Int.	12,172	12,085	0.6%	0.6%
Fifth Third US Treasury – 2011 Bund Fund – Prin.	13,750	13,750	0.6%	0.7%
Fifth Third US Treasury – 2013 Bund Fund – Int.	20,989	20,677	1.0%	1.0%
Fifth Third US Treasury – 2013 Bund Fund – Prin.	<u>83,333</u>	<u>84,465</u>	4.0%	4.0%
Total Fifth Third US Treasury	<u>1,557,726</u>	<u>1,558,298</u>		
Total Investments	<u>\$ 2,097,472</u>	<u>\$ 2,097,053</u>		

Interest Rate Risk: Interest Rate Risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The District's policy requires that, to the extent possible, the General Manager will attempt to match investments with anticipated cash flow requirements to take best advantage of prevailing economic and market conditions.

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

Credit Risk: Credit Risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Star Ohio 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 25.7% of its investments in STAR Ohio Plus.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS

For the Years Ended December 31, 2015 and 2014

**4. CAPITAL ASSETS**

The following is a schedule of capital assets at December 31, 2015:

	Balance at 12/31/2014 *	Additions	Retirements Disposals	Balance at 12/31/2015
<b>Non-Depreciable:</b>				
Land	\$ 234,806	\$ -	\$ -	\$ 234,806
Construction in Progress	3,587,841	1,395,951	-	4,983,792
<b>Total Non-Depreciable</b>	<b>3,822,647</b>	<b>1,395,951</b>	<b>-</b>	<b>5,218,598</b>
Wells	978,346	-	-	978,346
Booster Stations & Equip	3,623,633	17,002	-	3,640,635
Treatment Plants	10,491,791	14,506	-	10,506,297
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	10,362,202	138,574	-	10,500,776
Flush Hydrants	183,846	-	-	183,846
6" Hydrants	1,408,307	-	-	1,408,307
Structures & Improvements	2,475,601	5,650	-	2,481,251
Office Furniture & Equipment	624,183	8,174	-	632,357
Transportation/Constr. Equip	1,147,331	35,035	(38,603)	1,143,763
SCADA System	522,147	-	-	522,147
Misc. Plant & Repair Equipment	175,602	-	-	175,602
Laboratory Equipment	23,238	-	-	23,238
<b>Total Depreciable</b>	<b>65,232,464</b>	<b>218,941</b>	<b>(38,603)</b>	<b>65,412,802</b>
<b>Total at Historical Costs</b>	<b>69,055,111</b>	<b>1,614,892</b>	<b>(38,603)</b>	<b>70,631,400</b>
<b>Accumulated Depreciation</b>				
Wells	(596,976)	(18,793)	-	(615,769)
Booster Stations & Equip	(1,489,290)	(89,393)	-	(1,578,683)
Treatment Plants	(4,835,610)	(255,758)	-	(5,091,368)
Water Tanks & Standpipes	(2,517,891)	(166,566)	-	(2,684,457)
Distribution System	(12,351,831)	(650,342)	-	(13,002,173)
GIS System	(203,666)	(22,142)	-	(225,808)
Metered Services	(4,392,811)	(291,916)	-	(4,684,727)
Flush Hydrants	(94,854)	(4,309)	-	(99,163)
6" Hydrants	(501,283)	(33,957)	-	(535,240)
Structures & Improvements	(1,265,064)	(56,215)	-	(1,321,279)
Office Furniture & Equipment	(506,339)	(27,108)	-	(533,447)
Transportation/Constr. Equip	(809,411)	(78,886)	36,007	(852,290)
SCADA System	(318,314)	(12,355)	-	(330,669)
Misc. Plant & Repair Equipment	(158,786)	(4,210)	-	(162,996)
Laboratory Equipment	(23,238)	-	-	(23,238)
<b>Total Accumulated Depreciation</b>	<b>(30,065,364)</b>	<b>(1,711,950)</b>	<b>36,007</b>	<b>(31,741,307)</b>
<b>Capital Assets, Net</b>	<b>\$ 38,989,747</b>	<b>\$ (97,058)</b>	<b>(2,596)</b>	<b>\$ 38,890,093</b>

\* Reclassifications of capital assets were made to agree amounts to the District's accounting system.



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

NOTES TO THE BASIC FINANCIAL STATEMENTS

For the Years Ended December 31, 2015 and 2014

**4. CAPITAL ASSETS (Continued)**

The following is a schedule of capital assets at December 31, 2014:

	<b>Balance 12/31/2013</b>	<b>Additions</b>	<b>Disposals</b>	<b>Balance 12/31/2014</b>
<b>Non Depreciable:</b>				
Land	\$ 234,806	\$ -	\$ -	\$ 234,806
Construction in Progress	3,372,401	215,440	-	3,587,841
<b>Total Non Depreciable</b>	<b>3,607,207</b>	<b>215,440</b>	<b>-</b>	<b>3,822,647</b>
<b>Depreciable:</b>				
Wells	978,346	-	-	978,346
Booster Stations and Equipment	3,612,652	10,981	-	3,623,633
Treatment Plants	10,555,968	-	-	10,555,968
Water Tanks and Standpipes	5,886,117	-	-	5,886,117
Distribution Systems	26,989,563	-	-	26,989,563
GIS Systems	274,245	-	-	274,245
Metered Services	10,269,293	92,909	-	10,362,202
Flush Hydrants	183,846	-	-	183,846
6" Hydrants	1,410,443	-	-	1,410,443
Structures and Improvements	2,456,695	18,906	-	2,475,601
Office Furniture and Equipment	624,675	10,932	(11,424)	624,183
Transportation/Construction Equip.	1,055,047	124,154	(31,871)	1,147,330
SCADA System	522,147	-	-	522,147
Misc. Plant and Repair Equipment	175,602	-	-	175,602
Laboratory Equipment	23,238	-	-	23,238
<b>Total Depreciable</b>	<b>65,017,877</b>	<b>257,882</b>	<b>(43,295)</b>	<b>65,232,464</b>
<b>Total Capital Assets</b>	<b>68,625,084</b>	<b>473,322</b>	<b>(43,295)</b>	<b>69,055,111</b>
<b>Accumulated Depreciation:</b>				
Wells	(578,183)	(18,793)	-	(596,976)
Booster Stations and Equipment	(1,401,743)	(87,547)	-	(1,489,290)
Treatment Plants	(4,579,988)	(255,622)	-	(4,835,610)
Water Tanks and Standpipes	(2,351,326)	(166,565)	-	(2,517,891)
Distribution Systems	(11,703,012)	(648,819)	-	(12,351,831)
GIS Systems	(181,523)	(22,143)	-	(203,666)
Metered Services	(4,104,997)	(287,814)	-	(4,392,811)
Flush Hydrants	(90,546)	(4,308)	-	(94,854)
6" Hydrants	(467,325)	(33,958)	-	(501,283)
Structures and Improvements	(1,210,058)	(55,006)	-	(1,265,064)
Office Furniture and Equipment	(478,961)	(38,802)	11,424	(506,339)
Transportation/Construction Equip.	(769,306)	(70,520)	30,415	(809,411)
SCADA System	(305,960)	(12,354)	-	(318,314)
Misc. Plant and Repair Equipment	(154,575)	(4,211)	-	(158,786)
Laboratory Equipment	(23,238)	-	-	(23,238)
<b>Total Accumulated Depreciation</b>	<b>(28,400,741)</b>	<b>(1,706,462)</b>	<b>41,839</b>	<b>(30,065,364)</b>
<b>Capital Assets, Net</b>	<b>\$ 40,224,343</b>	<b>\$ (1,233,140)</b>	<b>\$ (1,456)</b>	<b>\$ 38,989,747</b>

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

NOTES TO THE BASIC FINANCIAL STATEMENTS

For the Years Ended December 31, 2015 and 2014

**5. LONG TERM OBLIGATIONS**

Long-term obligations at December 31, 2015 consist of:

<b>Description</b>	<b>Restated Balance 12/31/2014</b>	<b>Issued in 2015</b>	<b>Payments 2015</b>	<b>Balance 12/31/2015</b>	<b>Due in One Year</b>
USDA Rural Development Bonds Special Assessment Water Line	\$ 2,120,454	\$ -	\$ (88,530)	\$ 2,031,924	\$ 94,173
Extension Bonds - Series 1996 Special Assessment Water Line	155,000	-	(75,000)	80,000	80,000
Extension Bonds - Series 1997 Special Assessment Water Line	22,000	-	(7,000)	15,000	7,000
Extension Bonds - Series 1999 Special Assessment Water Line	1,755,000	-	(315,000)	1,440,000	330,000
Extension Bonds - Series 2000 Special Assessment Water Line	255,000	-	(35,000)	220,000	40,000
Extension Bonds - Series 2002 Special Assessment Water Line	380,000	-	(40,000)	340,000	40,000
Extension Bonds - Series 2007	96,000	-	(5,000)	91,000	5,000
Revenue Bonds - Series 2011	3,548,767	-	(165,861)	3,382,906	170,000
Revenue Bonds - Series 2013	6,000,000	-	(1,000,000)	5,000,000	1,000,000
OPWC #CJ07R	-	19,216	-	19,216	1,083
OPWC #CJ13Q	111,207	44,712	(7,796)	148,123	3,898
OPWC #CJ18R	-	134,718	-	134,718	4,094
Total before Premium and Defeased Interest	14,443,428	198,646	(1,739,187)	12,902,887	1,775,248
Bond Refunding Premium and Defeased Interest	(500,191)	-	78,658	(421,533)	(78,658)
Subtotal	13,943,237	198,646	(1,660,529)	12,481,354	1,696,590
Net Pension Liability	1,948,790	45,033	-	1,993,823	-
Total	<u>\$ 15,892,027</u>	<u>\$ 243,679</u>	<u>\$ (1,660,529)</u>	<u>\$ 14,475,177</u>	<u>\$ 1,696,590</u>

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

NOTES TO THE BASIC FINANCIAL STATEMENTS

For the Years Ended December 31, 2015 and 2014

**5. LONG TERM OBLIGATIONS (Continued)**

Long-term obligations at December 31, 2014 consist of:

<b>Description</b>	<b>Restated Balance 12/31/2013</b>	<b>Issued in 2014</b>	<b>Payments 2014</b>	<b>Balance 12/31/2014</b>	<b>Restated Due in One Year</b>
USDA Rural Development Bonds	\$ 2,203,676	\$ -	\$ (83,222)	\$ 2,120,454	\$ 88,530
Special Assessment Water Line Extension Bonds - Series 1994	10,000	-	(10,000)	-	-
Special Assessment Water Line Extension Bonds - Series 1996	225,000	-	(70,000)	155,000	75,000
Special Assessment Water Line Extension Bonds - Series 1997	29,000	-	(7,000)	22,000	7,000
Special Assessment Water Line Extension Bonds - Series 1999	2,055,000	-	(300,000)	1,755,000	315,000
Special Assessment Water Line Extension Bonds - Series 2000	290,000	-	(35,000)	255,000	35,000
Special Assessment Water Line Extension Bonds - Series 2002	420,000	-	(40,000)	380,000	40,000
Special Assessment Water Line Extension Bonds - Series 2007	101,000	-	(5,000)	96,000	5,000
Revenue Bonds - Series 2011	3,709,627	-	(160,860)	3,548,767	165,000
Revenue Bonds - Series 2013	7,000,000	-	(1,000,000)	6,000,000	1,000,000
OPWC CJ13Q	68,888	42,319	-	111,207	3,898
Total before Premium and Defeased Interest	16,112,191	42,319	(1,711,082)	14,443,428	1,734,428
Bond Refunding Premium and Defeased Interest	(584,814)	-	84,623	(500,191)	(84,623)
Subtotal	15,527,377	42,319	(1,626,459)	13,943,237	1,649,805
Net Pension Liability	-	1,948,790	-	1,948,790	-
Total	<u>\$ 15,527,377</u>	<u>\$ 1,991,109</u>	<u>\$ (1,626,459)</u>	<u>\$ 15,892,027</u>	<u>\$ 1,649,805</u>

As of December 31, 2015, the maturities of the principal amount of long-term debt for the five years ending:

<b>Year</b>	<b>Principal</b>	<b>Interest</b>
2016	\$ 1,770,071	\$ 488,753
2017	1,731,973	436,207
2018	1,761,359	382,519
2019	1,803,153	322,965
2020	1,430,379	258,702
2021-2025	2,015,485	866,369
2026-2030	2,188,543	323,778
2031-2035	35,081	-
Total	<u>\$ 12,736,044</u>	<u>\$ 3,079,293</u>
Bond Refunding and Defeased Interest	(421,533)	-
Bond Issue Premium	12,909	-
Total	<u>\$ 12,327,420</u>	<u>\$ 3,079,293</u>

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

NOTES TO THE BASIC FINANCIAL STATEMENTS

For the Years Ended December 31, 2015 and 2014

---

**5. LONG TERM OBLIGATIONS (Continued)**

OPWC CJ07R and OPWC CJ18R have not been fully disbursed and are not included in this amortization schedule.

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

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

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

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

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

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

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

During 2011, \$4,075,000 of Waterworks System Revenue Improvement Bonds, Series 2011 was issued. The District has pledged water customer revenues, net of specific operating expenses, to repay the waterworks revenue improvement bonds. Proceeds from the bonds (a) refunded the 2010 Bond Anticipation Note; (b) make certain improvements to the Waterworks System water tanks (c) fund a reserve, and (d) pay costs of issuance. The bonds are payable through 2030. The bonds mature at varying amounts and require interest payments at varying rates between 1.00% and 4.80%.

During 2013, \$7,000,000 of Waterworks System Revenue Improvement Bonds, Series 2013 was issued. The District has pledged water customer revenues, net of specific operating expenses, to repay the waterworks revenue improvement bonds. Proceeds from the bonds (a) refunded the 2003 Revenue Bond Note, (b) fund a reserve, and (c) pay costs of issuance. The bonds are payable through 2020. The bonds mature at varying amounts and require interest payments between .85% and 2.5%.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS

For the Years Ended December 31, 2015 and 2014

**5. LONG TERM OBLIGATIONS (Continued)**

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 are interest free. Principal payments are made twice a year. The balance of OPWC CJ13Q was restated as of January 1, 2014 to reflect \$42,319 in balance due previously recorded by the District as grant revenue. 2014 activity was also restated to reflect \$68,888 in balance due previously recorded by the District as grant revenue. See Note 10 for more detail.

The Advance Note Payable to the State of Ohio represents an interest free advance from the Ohio Water and Sewer Rotary Commission. The purpose of the advance was to fund agricultural deferments for the Beissinger/West Elktion Roads Water Improvement Project. The Ohio Water and Sewer Rotary Commission was disbanded before the advance was required to be repaid and the \$62,441 advance was removed from the District's liabilities. See Note 10 for more detail.

**6. ASSESSMENTS RECEIVABLE**

Assessment accounts receivable are from completed construction projects and the issuance of final assessments to residents to cover those costs. The receivables are collected through property tax billing. Included in the balances at December 31, 2015 and December 31, 2014 are deferred agricultural property assessments and the related accrued interest receivable. These amounts will be collected when the properties no longer qualify for agricultural property status, as defined in the Ohio Revised Code Chapter 929, and as certified by the County Auditor. The time frame of collection is undeterminable. The negative county auditor's collection amounts result primarily in part due to these deferred collections. The assessment accounts receivable balances at December 31, 2015 and December 31, 2014 are as follows:

<b>December 31, 2015</b>	<b>Total Assessed</b>	<b>Prepaid Assessments</b>	<b>County Auditor and Deferred Assessments Paid</b>	<b>% Collected</b>
1994 Assessments	\$ 227,778	\$ -	\$ 150,000	66%
1996 Assessments	889,478	-	907,500	102%
1997 Assessments	94,579	-	83,000	88%
1999 Assessments	4,322,014	19,093	3,560,000	82%
2000 Assessments	579,383	12,144	390,000	67%
2002 Assessments	736,635	8,960	425,000	58%
2007 Assessments	116,045	-	35,000	30%
Total Receivable (\$1,350,715)	<u>\$ 6,965,912</u>	<u>\$ 40,197</u>	<u>\$ 5,550,500</u>	80%

<b>December 31, 2014</b>	<b>Total Assessed</b>	<b>Prepaid Assessments</b>	<b>County Auditor and Deferred Assessments Paid</b>	<b>% Collected</b>
1994 Assessments	\$ 227,778	\$ -	\$ 150,000	66%
1996 Assessments	889,478	-	840,000	94%
1997 Assessments	94,579	-	75,910	80%
1999 Assessments	4,322,014	19,093	3,245,000	75%
2000 Assessments	579,383	12,144	355,000	61%
2002 Assessments	736,635	8,960	385,000	52%
2007 Assessments	116,045	-	30,000	26%
Total Receivable (\$1,820,215)	<u>\$ 6,965,912</u>	<u>\$ 40,197</u>	<u>\$ 5,080,910</u>	73%

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

NOTES TO THE BASIC FINANCIAL STATEMENTS

For the Years Ended December 31, 2015 and 2014

**6. ASSESSMENTS RECEIVABLE (Continued)**

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

<b>Collection Year</b>	<b>Total Assessments Levied</b>	<b>Current Assessments Collected</b>	<b>% of Total Collections to Assessments Levied</b>	<b>Delinquent Assessments Collected*</b>	<b>Total Collections as a % of Current Assessments Levied</b>
2015	\$ 567,129	\$ 543,287	96%	\$ 37,548	102%
2014	582,601	523,410	90%	43,477	97%
2013	572,208	541,412	95%	43,370	102%
Total	<u>\$ 1,721,938</u>	<u>\$ 1,608,109</u>	93%	<u>\$ 124,395</u>	101%

\* Collected delinquent assessments include penalty and interest.

**7. DEFINED BENEFIT RETIREMENT 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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS

For the Years Ended December 31, 2015 and 2014

**7. DEFINED BENEFIT RETIREMENT PLAN (Continued)**

**Plan Description – Ohio Public Employees Retirement System (OPERS)**

The 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):

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS

For the Years Ended December 31, 2015 and 2014

**7. DEFINED BENEFIT RETIREMENT PLAN (Continued)**

Funding Policy—The ORC provides statutory authority for member and employer contributions. For 2015, 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 2.0% during calendar year 2015 (see Note 8). Employer contribution rates are actuarially determined and are expressed as a percentage of covered payroll. The District’s contractually required contribution was \$245,339 for 2015.

**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, 2014 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 \$1,993,823 as its proportionate share. The District’s proportion was 0.016531% and its pension expense was \$216,901.

At December 31, 2015, 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	\$ 245,339	\$ -	\$ 245,339
Net difference between projected and actual investment earnings	106,384	-	106,384
Differences between expected and actual experience	-	(35,028)	(35,028)
	\$ 351,723	\$ (35,028)	\$ 316,695

\$245,339 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, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

	Deferred Outflows	Deferred (Inflows)	Pension Expense
Year Ending December 31:			
2016	\$ 26,596	\$ (16,161)	\$ 10,435
2017	26,596	(16,161)	10,435
2018	26,596	(2,706)	23,890
2019	26,596	-	26,596
	\$ 106,384	\$ (35,028)	\$ 71,356



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

NOTES TO THE BASIC FINANCIAL STATEMENTS

For the Years Ended December 31, 2015 and 2014

---

**7. DEFINED BENEFIT RETIREMENT 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, 2014, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Wage inflation	3.75%
Future salary increases, including inflation	4.25% to 10.05%, including wage inflation
COLA or Ad Hoc COLA	3%, simple
Investment rate of return	8%
Actuarial cost method	Individual entry age

Mortality rates were based on the RP-2000 Mortality Table projected 20 years using Projection Scale AA. For males, 105% of the combined healthy male mortality rates were used. For females, 100% of the combined health female mortality rates were used. The mortality rates used in evaluating disability allowances were based on the RP-2000 mortality table with no projections. For males, 120% of the disabled female mortality rates were used set forward two years. For females, 100% of the disabled female mortality rates were used.

The most recent experience study was completed for the five-year period ended December 31, 2010.

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.

OPERS manages investments in four investment portfolios: the Defined Benefits portfolio, the Health Care portfolio, the 115 Health Care Trust portfolio and the Defined Contribution portfolio. The Defined Benefit portfolio includes the investment assets of the Traditional Pension Plan, the defined benefit component of the Combined Plan, the annuitized accounts of the Member-Directed Plan and the VEBA Trust. 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 money weighted rate of return, net of investments expense, for the Defined Benefit portfolio is 6.95% for 2014.

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 2014 and the long-term expected real rates of return:

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

NOTES TO THE BASIC FINANCIAL STATEMENTS

For the Years Ended December 31, 2015 and 2014

**7. DEFINED BENEFIT RETIREMENT PLAN (Continued)**

Asset Class	Target Allocation	Weighted Average Long-Term Expected Real Rate of Return (Arithmetic)
Fixed Income	23.00%	2.31%
Domestic Equities	19.90%	5.84%
Real Estate	10.00%	4.25%
Private Equity	10.00%	9.25%
International Equities	19.10%	7.40%
Other Investments	<u>18.00%</u>	<u>4.59%</u>
Total	<u>100.00%</u>	<u>5.28%</u>

**Discount Rate.** The discount rate used to measure the total pension liability was 8%. 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 8%, 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 (7%) and one-percentage point higher (9%) than the current rate:

	1% Decrease (7.00%)	Current Discount Rate of 8%	1% Increase (9.00%)
District's proportionate share of the net pension liability	\$ 3,668,099	\$ 1,993,823	\$ 583,715

**8. POST EMPLOYMENT BENEFITS**

A. 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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS

For the Years Ended December 31, 2015 and 2014

---

**8. POST EMPLOYMENT BENEFITS (Continued)**

OPERS maintains a cost-sharing multiple employer defined benefit post-employment healthcare plan, which includes a medical plan, prescription drug program and Medicare Part B premium reimbursement, to qualifying members of both the Traditional Pension and the Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits, including post-employment health care coverage. In order to qualify for post-employment health care coverage, age-and-service retirees under the Traditional Pension and Combined Plans must have 10 or more years of qualifying Ohio service credit. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available. The health care coverage provided by OPERS meets the definition of an Other Post Employment Benefit (OPEB) as described in GASB Statement 45. OPERS' eligibility requirements for post-employment health care coverage changed for those retiring on and after January 1, 2015. Please see the Plan Statement in the OPERS 2013 CAFR for details.

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

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

- B. The Ohio Revised Code provides the statutory authority requiring public employers to fund post-employment health care through their contributions to OPERS. A portion of each employer's contribution to OPERS is set aside for the funding of post retirement health care benefits. Employer's contributions are expressed as a percentage of the earnable salary of active members. In 2015, the District contributed at 14.0% of earnable salary for local government employer units. These are the maximum employer contribution rates permitted by the Ohio Revised Code. Active members do not make contributions to the OPEB Plan.

OPERS' Post Employment Health Care plan was established under, and is administrated in accordance with, Internal Revenue Code 401 (h). Each year, the OPERS Board of Trustees determines the portion of the employer contribution rate that will be set aside for funding of post employment health care benefits. The portion of employer contributions allocated to health care for members in the Traditional Plan was 2.0% during calendar years 2015 and 2014. The portion of employer contributions allocated to health care for members in the Combined Plan was 1.0% during calendar year 2013. Effective January 1, 2015, the portion of employer contribution allocated to health care remains at 2.0% for both plans, as recommended by OPERS' Actuary. The OPERS Board of Trustees is also authorized to establish rules for the retiree, or their surviving beneficiaries, to pay a portion of the health care benefits provided. Payment amounts vary depending on the number of covered dependents and the coverage selected.

- C. The rates stated in Section B, above, are the contractually required contribution rates for OPERS. The District's contributions that were used to fund post-employment benefits were \$142,633 for 2015, \$132,072 for 2014 and \$90,476 for 2013.
- D. Changes to the health care plan were adopted by the OPERS Board of Trustees on September 19, 2012, with a transition plan which commenced January 1, 2014. With the recent passage of pension legislation under SB 343 and the approved health care changes, OPERS expects to be able to consistently allocate 4.0% of the employer contributions toward the health care fund after the end of the transition period.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS

For the Years Ended December 31, 2015 and 2014

---

**9. RISK MANAGEMENT**

The District is exposed to various risks of loss to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. For 2015 the District contracted for the following insurance coverage:

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

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

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

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

**10. CHANGES IN ACCOUNTING PRINCIPLES**

For 2015, the District implemented Governmental Accounting Standards Board (GASB) Statement No. 68, "Accounting and Financial Reporting for Pensions-an Amendment of GASB Statement No. 27" and GASB Statement No. 71, "Pension Transition for Contributions Made Subsequent to the Measurement Date-an amendment of GASB Statement No. 68."

Statement No. 68 requires governments providing defined benefit pensions to recognize their unfunded pension benefit obligation as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. The statement also enhances accountability and transparency through revised note disclosures and required supplemental information (RSI).

Statement No. 71 amends paragraph 137 of Statement 68 to require that, at transition, a government recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability.

The impact of the application of Statement No. 68 and Statement No. 71 had the following effect on beginning net position as of January 1, 2015:

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

NOTES TO THE BASIC FINANCIAL STATEMENTS

For the Years Ended December 31, 2015 and 2014

**10. CHANGES IN ACCOUNTING PRINCIPLES (Continued)**

Net position - December 31, 2013	\$	33,945,280
Adjustments:		
Removal of advance		62,441
OPWC debt balance		(68,888)
		(6,447)
Restated net position - December 31, 2013	\$	33,938,833
Net position - December 31, 2014	\$	35,173,239
Adjustments:		
Removal of advance		62,441
2013 OPWC debt balance		(68,888)
2014 OPWC debt balance		(42,319)
Net pension liability		(1,948,790)
Deferred outflows - payments subsequent to measurement date		243,224
		243,224
Restated net position - December 31, 2014	\$	33,418,907

Other than employer contributions subsequent to the measurement date, the District made no restatement for deferred inflows/outflows of resources as the information needed to generate these restatements was not available.

Net position was also adjusted to correct the District's outstanding debt balance. The District previously recorded OPWC grant revenue as outstanding debt and OPWC outstanding debt as grant revenue. The District also maintained an outstanding debt balance for an Advance Note Payable to the State of Ohio, which was an interest free advance from the Ohio Water and Sewer Rotary Commission. The Ohio Water and Sewer Rotary Commission was disbanded before the advance was required to be repaid. See Note 5 for more detail.

**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 TWO MEASUREMENT YEARS (1)

	<u>2014</u>	<u>2013</u>
District's Proportion of the Net Pension Liability	0.016531%	0.016531%
District's Proportionate Share of the Net Pension Liability	\$ 1,993,823	\$ 1,948,790
District's Covered-Employee Payroll (3)	\$ 2,026,867	\$ 1,855,569
District's Proportionate Share of the Net Pension Liability as a Percentage of its Covered-Employee Payroll	98.37%	105.02%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	86.45%	86.36%

(1) Information prior to 2013 was not available. The District will continue to present information for years available until a full ten-year trend is compiled.

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

REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF CONTRIBUTIONS  
OHIO PUBLIC EMPLOYEES RETIREMENT SYSTEM - TRADITIONAL PENSION PLAN  
LAST THREE YEARS (1)

---

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Contractually Required Contributions	\$ 245,339	\$ 243,224	\$ 241,224
Contributions in Relation to the Contractually Contractually Required Contributions	<u>\$ (245,339)</u>	<u>\$ (243,224)</u>	<u>\$ (241,224)</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District Covered-Employee Payroll	\$ 2,044,492	\$ 2,026,867	\$ 1,855,569
Contributions as a Percentage of Covered- Employee Payroll	12.00%	12.00%	13.00%

(1) Represents employer's calendar year. Information prior to 2013 was not available. The District will continue to present information for years available until a full ten-year trend is compiled.



428 Second St.  
Marietta, OH 45750  
740.373.0056

1907 Grand Central Ave.  
Vienna, WV 26105  
304.422.2203

104 South Sugar St.  
St. Clairsville, OH 43950  
740.695.1569

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

October 31, 2016

Southwest Regional Water District  
Butler County  
3640 Old Oxford Rd.  
Hamilton, OH 45013

To the Board of Trustees:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the **Southwest Regional Water District**, Butler County, (the "District") as of and for the years ended December 31, 2015 and 2014, 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 31, 2016, wherein we noted the District adopted Governmental Accounting Standard Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB No. 27* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*.

***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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Therefore, unidentified material weaknesses or significant deficiencies may exist. However, as described in the accompanying schedule of audit findings we identified certain deficiencies in internal control over financial reporting, that we consider a material weakness and a significant deficiency.

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 a 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. We consider finding 2015-001 described in the accompanying schedule of audit findings to be a material weakness.

A *significant deficiency* is a deficiency, or a combination of internal control deficiencies less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider finding 2015-002 described in the accompanying schedule of audit findings to be a significant deficiency.



...***"bringing more to the table"***  
Tax – Accounting – Audit – Review – Compilation – Agreed Upon Procedure – Consultation – Bookkeeping – Payroll  
Litigation Support – Financial Investigations  
Members: American Institute of Certified Public Accountants  
• Ohio Society of CPAs • West Virginia Society of CPAs • Association of Certified Fraud Examiners •  
• Association of Certified Anti - Money Laundering Specialists •





***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 an instance of noncompliance or other matters we must report under *Government Auditing Standards* which is described in the accompanying schedule of audit findings as item 2015-003.

We also noted certain matters not requiring inclusion in this report that we reported to the District's management in a separate letter dated October 31, 2016.

***Entity's Response to Findings***

The District's responses to the findings identified in our audit are described in the accompanying schedule of audit findings. We did not audit the District's responses and, accordingly, we express no opinion on them.

***Purpose of this Report***

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



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

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

SCHEDULE OF AUDIT FINDINGS  
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b>
--

**FINDING NUMBER 2015-001**

**Material Weakness**

**Long-Term Liabilities**

We determined the District incurred Ohio Public Works Commission (OPWC) debt during 2015. However, portions of that debt were recorded on the District's accounting system as grant revenue, and grant revenue had been recorded as outstanding debt. We also noted OPWC debt had been issued during 2014 and 2013, but these amounts had been recorded on the District's accounting system as grant revenue in their respective periods. The District also maintained an outstanding debt balance for an advance from the Ohio Water and Sewer Rotary Commission. The Commission was disbanded prior to the audit period and before conditions were met for the debt was to be repaid. Adjustments were made to the 2015 and 2014 financial statements to reflect proper classifications of activity and a prior period restatement was made to properly classify the 2013 debt issuance and the financial statements reflect all adjustments. The District has recorded all adjustments in its accounting system.

We recommend that the District utilize reports from OPWC to determine whether disbursements are for grants or debt issuances to record the disbursements correctly in its accounting system. Debt issuances should be approved by the Board and monitored to ensure payments are made timely.

**Management's Response** – Management will make adjustments as suggested by Auditor to meet compliance with findings.

**FINDING NUMBER 2015-002**

**Significant Deficiency**

**Segregation of Duties**

When designing the public office's system of internal control and the specific control activities, management should plan for adequate segregation of duties or compensating controls.

During 2015, the District used its accounting software to track its payroll activities. The Human Resource Director was the sole person responsible for preparing these records and there was no evidence of supervisory review. Final reports were emailed to the Finance Manager, but the Finance Manager was not given supporting documentation for comparison (i.e timecards) and was only checking for items that are out of the ordinary. The Human Resource Director enters payroll from approved timecards and approves the total amount to be debited from the checking account for payroll. This lack of supervisory review could allow discrepancies in timecards and actual hours worked and issues with pay amounts to go unnoticed.

We recommend the District establish adequate internal controls and segregation of duties to reduce the opportunity for any one person to both perpetrate and conceal errors or omissions.

**Management's Response** – The District will ensure review of supporting documentation by the Finance Manager according to established policy.

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

SCHEDULE OF AUDIT FINDINGS  
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)</b>
--

**FINDING 2015-003**

**Noncompliance**

**Ohio Revised Code Section 5705.41(D)** requires that no subdivision or taxing unit shall make any contract or give any order involving the expenditure of money unless a certificate signed by the fiscal officer is attached thereto. The fiscal officer must certify that the amount required meeting any such contract or expenditure has been lawfully appropriated and is in the treasury, or is in the process of collection to the credit of an appropriate fund free from any previous encumbrance. Only the subdivision's fiscal officer need sign the certificate. Every contract made without such a certificate shall be void, and no warrant shall be issued in payment of any amount due thereon.

There are several exceptions to the standard requirement stated above that a fiscal officer's certificate must be obtained prior to a subdivision or taxing authority entering into a contract or order involving the expenditure of money. The main exceptions are: "then and now" certificates, blanket certificates, and super blanket certificates, which are provided for in sections 5705.41(D)(1) and 5705.41(D)(3), respectively, of the Ohio Revised Code.

1. "Then and Now" certificate - If the fiscal officer can certify that both at the time that the contract or order was made ("then"), and at the time that the fiscal officer is completing the certification ("now"), that sufficient funds were available or in the process of collection, to the credit of a proper fund, properly appropriated and free from any previous encumbrance, the taxing authority can authorize the drawing of a warrant for the payment of the amount due. The taxing authority has thirty days from the receipt of the "then and now" certificate to approve payment by ordinance or resolution. Amounts of less than \$3,000 may be paid by the fiscal officer without a resolution or ordinance upon completion of the "then and now" certificate, provided that the expenditure is otherwise lawful. This does not eliminate any otherwise applicable requirement for approval of expenditures by the taxing authority.
2. Blanket Certificate – Fiscal officers may prepare "blanket" certificates for a certain sum of money not in excess of an amount established by resolution or ordinance adopted by a majority of the members of the legislative authority against any specific line item account over a period not running beyond the end of the current fiscal year. The blanket certificates may, but need not, be limited to a specific vendor. Only one blanket certificate may be outstanding at one particular time for any one particular line item appropriation.
3. Super Blanket Certificate – The entity may also make expenditures and contracts for any amount from a specific line-item appropriation account in a specified fund upon certification of the fiscal officer for most professional services, fuel, oil, food items, and any other specific recurring and reasonably predictable operating expense. This certification is not to extend beyond the current year. Only one super blanket certificate may be outstanding at a particular time for any one line-item appropriation.

The District did not properly certify the availability of funds prior to purchase commitment for 58% of the expenditures tested for 2015.

Unless the exceptions noted above are used, prior certification is not only required by statute but is a key control in the disbursement process to assure that purchase commitments receive prior approval.

To improve controls over disbursements and to help reduce the possibility of the District's funds exceeding budgetary spending limitations, we recommend that the District certify that the funds are or will be available prior to an obligation being incurred by the District. When prior certification is not possible, "then and now" certification should be used.

**Management's Response** – Management has reviewed the statutory requirements as described in the findings and will ensure compliance.

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

SCHEDULE OF PRIOR AUDIT FINDINGS  
FOR THE YEAR ENDED DECEMBER 31, 2015

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2014-001	Timecards	No	Partially Corrected; Repeated in Management Letter
2014-002	Segregation of Duties	No	Not Corrected; Repeated as Finding 2015-002



# Dave Yost • Auditor of State

**SOUTHWEST REGIONAL WATER DISTRICT**

**BUTLER COUNTY**

## **CLERK'S CERTIFICATION**

**This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.**

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
APRIL 6, 2017**