

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

Perry & Associates
Certified Public Accountants, A.C.



Dave Yost • Auditor of State

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

We have reviewed the *Independent Auditor's Report* of the Southwest Regional Water District, Butler County, prepared by Perry & Associates, Certified Public Accountants, A.C., for the audit period January 1, 2012 through December 31, 2012. 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

July 9, 2013

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**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	11
Statements of Revenues, Expenses, and Changes in Net Position	12
Statements of Cash Flows	13
Notes to the Basic Financial Statements.....	14
Independent Auditor’s Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by <i>Government Auditing Standards</i>	29

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Perry & Associates

Certified Public Accountants, A.C.

www.perrycpas.com

MARIETTA

428 Second Street
Marietta, OH 45750
(740) 373-0056
(740) 373-2402 Fax

PARKERSBURG

1035 Murdoch Avenue
Parkersburg, WV 26101
(304) 422-2203
(304) 428-5587 Fax

ST. CLAIRSVILLE

121 E. Main Street
St. Clairsville, OH 43950
(740) 695-1569
(740) 695-5775 Fax

INDEPENDENT AUDITOR'S REPORT

June 21, 2013

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

To the Board of Trustees:

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of the **Southwest Regional Water District**, Butler County, Ohio (the District), as of and for the years ended December 31, 2012 and 2011, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Southwest Regional Water District, Butler County, Ohio, as of December 31, 2012 and 2011, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with the accounting principles generally accepted in the United States of America.

Emphasis of Matter

Change in Accounting Principles

As described in Note 2, the District adopted the provisions of Governmental Accounting Standards Board Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. 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* listed in the table of contents, to supplement the basic financial statements. Although this information is not part of the basic financial statements, the Governmental Accounting Standards Board considers it essential for placing the basic financial statements in an appropriate operational, economic, or historical context. We applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, consisting of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, to the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not opine or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to opine or provide any other assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 21, 2013, 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.

Respectfully Submitted,



Perry and Associates
Certified Public Accountants, A.C.



MANAGEMENT DISCUSSION AND ANALYSIS **(Unaudited)**

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

FINANCIAL HIGHLIGHTS

- The total assets of SWRWD exceeded total liabilities on December 31, 2012 by \$32.86 million and \$32.11 million on December 31, 2011.
- The District’s net assets increased \$741.86 thousand in 2012 and increased \$377.78 thousand in 2011.
- The District’s Operating Revenues increased by \$441.64 thousand (5.7%) in 2012 and decreased by \$338.04 thousand (-4.2%) in 2011, with Operating and Maintenance Expenses decreasing \$150.27 thousand (-2.95%) in 2012 and decreasing \$24.2 thousand (-.47%) in 2011.

OVERVIEW OF BASIC FINANCIAL STATEMENTS

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

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

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

NET POSITION

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

TABLE 1

	2012	2011	Change Amount	%
Current and Other Assets	\$ 10,932,985	\$ 10,921,809	\$ 11,176	0.1%
Capital Assets	40,271,283	41,178,784	(907,501)	-2.2%
Total Assets	\$ 51,204,268	\$ 52,100,593	\$ (896,325)	-1.7%
Long Term Liabilities	\$ 16,208,238	\$ 17,842,978	\$ (1,634,740)	-9.2%
Other Liabilities	2,140,232	2,143,673	(3,441)	-0.2%
Total Liabilities	18,348,470	19,986,651	(1,638,181)	-8.2%
Net Investment in Capital Assets	22,468,269	21,760,718	707,551	3.2%
Restricted	2,548,470	2,578,056	(29,586)	-1.1%
Unrestricted	7,839,059	7,775,168	63,891	0.8%
Total Net Position	\$ 32,855,798	\$ 32,113,942	\$ 741,856	2.3%

	2011	2010	Change Amount	%
Current and Other Assets	\$ 10,921,809	\$ 10,943,372	\$ (21,563)	-0.1%
Capital Assets	41,178,784	41,461,730	(282,946)	-0.6%
Total Assets	\$ 52,100,593	\$ 52,405,102	\$ (304,509)	-0.5%
Long Term Liabilities	\$ 17,842,978	\$ 15,430,816	\$ 2,412,162	15.6%
Other Liabilities	2,143,673	5,238,125	(3,094,452)	-59.0%
Total Liabilities	19,986,651	20,668,941	(682,290)	-3.3%
Net Investment in Capital Assets	21,760,718	24,650,233	(2,889,515)	-11.7%
Restricted	2,578,056	2,244,390	333,666	14.8%
Unrestricted	7,775,168	4,841,538	2,933,630	60.6%
Total Net Position	\$ 32,113,942	\$ 31,736,161	\$ 377,781	1.1%

- The District's Net Position increased \$742 thousand dollars in 2012. The increase is mostly a result of decreased operating expenses and increased water revenue during the year. The District's Net Position increased \$378 thousand dollars in 2011. This increase was primarily the result of decreased operating expenses and increase grant monies received during the year.
- The District issued \$4.1 million dollars in revenue bonds in 2011. The bonds were issued primarily to permanently finance the Bond Anticipation Notes (BAN) issued in 2010. The District incurred no new long term debt in 2010, but did issue \$3.25 million in Bond Anticipation Notes (BAN) to renew the 2009 BAN and for construction projects during the year.
- The District incurred no new long term debt in 2012.

STATEMENT OF REVENUES & EXPENSES (CHANGES IN NET POSITION)

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

TABLE 2				
	2012	2011	Change Amount	%
Operating Revenues	\$ 8,165,334	\$ 7,723,692	\$ 441,642	5.7%
Total Revenues	8,165,334	7,723,692	441,642	5.7%
Operations Expenses	4,087,533	4,048,049	39,484	1.0%
Maintenance Expenses	856,016	1,045,765	(189,749)	-18.1%
Depreciation Expenses	1,689,041	1,746,599	(57,558)	-3.3%
Total Expenses	6,632,590	6,840,413	(207,823)	-3.0%
Operating Income	1,532,744	883,279	649,465	73.5%
Non-Operating Revenues	241,932	518,645	(276,713)	-53.3%
Non-Operating Expenses	(1,032,820)	(1,073,801)	40,981	3.8%
Capital Contributions	-	49,658	(49,658)	-100.0%
Change in Net Position	741,856	377,781	364,075	96.3%
Net Position, Beginning of Year	32,113,942	31,736,161	377,781	1.1%
Net Position, End Of Year	\$ 32,855,798	\$ 32,113,942	\$ 741,856	2.3%
	2011	2010	Change Amount	%
Operating Revenues	\$ 7,723,692	\$ 8,061,734	\$ (338,042)	-4.2%
Total Revenues	7,723,692	8,061,734	(338,042)	-4.1%
Operations Expenses	4,048,049	4,232,664	(184,615)	-4.4%
Maintenance Expenses	1,045,765	885,067	160,398	18.2%
Depreciation Expenses	1,746,599	1,725,026	21,573	1.3%
Total Expenses	6,840,413	6,842,757	(2,344)	0.0%
Operating Income	883,279	1,218,977	(335,698)	-27.5%
Non-Operating Revenues	518,645	322,983	195,662	60.6%
Non-Operating Expenses	(1,073,801)	(1,046,503)	(27,298)	-2.6%
Capital Contributions	49,658	307,208	(257,550)	-83.8%
Change in Net Position	377,781	802,665	(424,884)	-52.9%
Net Position, Beginning of Year	31,736,161	30,933,496	802,665	2.6%
Net Position, End Of Year	\$ 32,113,942	\$ 31,736,161	\$ 377,781	1.2%

STATEMENT OF REVENUES & EXPENSES (CHANGES IN NET ASSETS) – (continued)

- Total Operating Revenues increased \$442 thousand (5.7%) in 2012 as metered water sales and new connection fees increased. Metered water sales and the sale of new taps decreased \$388 thousand (-4.2%) in 2011 from 2010.
- Total Operating and Maintenance Expenses (excluding depreciation) decreased \$150.3 thousand (-2.9%) in 2012. In 2011, total Operating and Maintenance Expenses (excluding depreciation) decreased a modest \$23.9 thousand (-.46%) from 2010.
- The total change in net position (net retained earnings) in 2012 was an increase of \$741.9 thousand compared to an increase of \$377.8 thousand in 2011 and an increase of \$802.7 thousand in 2010.

CAPITAL ASSETS

The District had \$67.1 million invested in Capital Assets (before depreciation) at the end of 2012, \$66.5 million in 2011 and \$65.01 million in 2010, as shown in Table 3. This amount is an increase of \$613 thousand in 2012 from 2011 and \$1.46 million in 2011 from the previous year, 2010.

TABLE 3

	2012	2011	Change Amount	%
Land	\$ 234,806	\$ 234,806	\$ -	0.0%
Wells	978,346	978,346	-	0.0%
Booster Stations & Equip	3,603,380	3,586,427	16,953	0.5%
Treatment Plants	10,555,968	10,555,968	-	0.0%
Water Tanks & Standpipes	5,886,117	5,886,117	-	0.0%
Distribution System	26,989,563	26,989,563	-	0.0%
GIS System	274,245	274,245	-	0.0%
Metered Services	10,169,364	10,074,502	94,862	0.9%
Flush Hydrants	183,846	183,846	-	0.0%
6" Hydrants	1,410,443	1,410,443	-	0.0%
Structures & Improvements	2,448,667	2,448,667	-	0.0%
Office Furniture & Equipment	688,632	655,283	33,349	5.1%
Transportation/Constr. Equip	951,992	992,363	(40,371)	-4.1%
SCADA System	522,147	522,147	-	0.0%
Misc. Plant & Repair Equipment	175,602	175,602	-	0.0%
Laboratory Equipment	23,238	23,238	-	0.0%
Construction in Progress	1,991,353	1,483,130	508,223	34.3%
Totals before Depreciation	67,087,709	66,474,693	613,016	0.9%
Accumulated Depreciation	(26,816,426)	(25,295,909)	(1,520,517)	6.0%
Total Capital Assets	\$ 40,271,283	\$ 41,178,784	\$ (907,501)	-2.2%

	2011	2010	Change Amount	%
Land	\$ 234,806	\$ 234,806	\$ -	0.0%
Wells	978,346	978,346	-	0.0%
Booster Stations & Equip	3,586,427	3,586,427	-	0.0%
Treatment Plants	10,555,968	10,555,968	-	0.0%
Water Tanks & Standpipes	5,886,117	5,886,117	-	0.0%
Distribution System	26,989,563	26,879,183	110,380	0.4%
GIS System	274,245	274,245	-	0.0%
Metered Services	10,074,502	9,973,620	100,882	1.0%
Flush Hydrants	183,846	183,846	-	0.0%
6" Hydrants	1,410,443	1,410,443	-	0.0%
Structures & Improvements	2,448,667	2,354,767	93,900	3.9%
Office Furniture & Equipment	655,283	621,796	33,487	5.3%
Transportation/Constr. Equip	992,363	870,746	121,617	13.9%
SCADA System	522,147	522,147	-	0.0%
Misc. Plant & Repair Equipment	175,602	145,623	29,979	20.5%
Laboratory Equipment	23,238	23,238	-	0.0%
Construction in Progress	1,483,130	509,723	973,406	190.9%
Totals before Depreciation	66,474,693	65,011,042	1,463,651	2.2%
Accumulated Depreciation	(25,295,909)	(23,549,312)	(1,746,597)	7.4%
Total Capital Assets	\$ 41,178,784	\$ 41,461,730	(282,946)	-0.6%

- The increase in Capital Assets before depreciation in 2012 is primarily from Construction in Progress consisting mostly of Distribution Systems Additions and water tank improvements. The increase in Capital Assets before depreciation in 2011 is primarily from Construction in Progress, consisting mostly of water tank improvements, and in 2010 primarily from Distribution System additions and improvements and filter improvements at the District's North Treatment Plant.

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

	2012	2011	Change Amount	%
REVENUE BONDS				
2011 Revenue Bonds	\$ 3,870,490	\$ 4,026,351	\$ (155,861)	-3.9%
2003 Revenue Bonds	8,644,881	9,688,182	(1,043,301)	-10.8%
Rural Development Bonds	2,281,913	2,355,461	(73,548)	-3.1%
Total Revenue Bonds	14,797,284	16,069,994	(1,272,710)	-7.9%
Special Assessment Bonds	3,566,000	3,987,000	(421,000)	-10.6%
Ohio Water & Sewer Rotary Commission	62,441	62,441	-	0%
Long Term Debt	\$ 18,425,725	\$ 20,119,435	\$ (1,693,710)	-8.4%
Less				
Reacquisition Costs 1995 Revenue Bonds -				
Advance Refunding	(622,711)	(701,370)	78,659	11.2%
Current Maturities	(1,694,237)	(1,674,548)	(19,689)	-1.1%
Net Total Long Term Debt	\$ 16,108,777	\$ 17,743,517	\$ (1,634,740)	-9.2%
	2011	2010	Change Amount	%
REVENUE BONDS				
2011 Revenue Bonds	\$ 4,026,351	\$ -	\$ 4,026,351	100.0%
2003 Revenue Bonds	9,688,182	10,716,482	(1,028,300)	-9.5%
Rural Development Bonds	2,355,461	2,424,601	(69,140)	-2.8%
Total Revenue Bonds	16,069,994	13,141,083	2,928,911	22.2%
Special Assessment Bonds	3,987,000	4,388,000	(401,000)	-9.1%
Ohio Water & Sewer Rotary Commission	62,441	62,441	-	0%
Long Term Debt	\$ 20,119,435	\$ 17,591,524	\$ 2,527,911	-14.3%
Less				
Reacquisition Costs 1995 Revenue Bonds -				
Advance Refunding	(701,369)	(780,028)	78,659	-10.0%
Current Maturities	(1,674,548)	(1,480,140)	194,408	13.1%
Net Total Long Term Debt	\$ 17,743,518	\$ 15,331,356	\$ 2,412,162	15.7%

DEBT – (continued)

- The District incurred no new debt in 2012.
- The District issued \$4.1 million in new long term debt in 2011 to pay off the Bond Anticipation Note (BAN) issued in 2010 and no new long term debt in 2010 or 2009.
- The District issued a short term Bond Anticipation Note (BAN) in the amount of \$3,250,000 in 2010 to renew the 2009 BAN of \$2,617,000 while obtaining additional funds for watermain improvement projects.
- The 2011 Revenues Bonds was assigned an Aa3 rating by Moody's Investors Services.
- The payment of principal and interest of the 2003 Revenue Bonds when due is guaranteed by a financial guaranty insurance policy issued by MBIA Insurance Corporation.

DEBT COVERAGE

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

Table 5			
	2012	2011	2010
Operating Revenues	\$ 8,165,334	\$ 7,723,692	\$ 8,061,734
Non-Operating Revenue	191,996	194,849	184,634
Total Revenues	8,357,330	7,918,541	8,246,368
Less Operations & Maintenance Expenses	(4,943,549)	(5,093,814)	(5,117,731)
Total Revenues Available for Debt	\$ 3,413,781	\$ 2,824,727	\$ 3,128,637
Revenue Bond Debt Service - 2003 & 2011	1,766,220	1,654,443	1,389,235
Revenue Bond Debt Service - Rural Development & Special Assessment - Deficit Collections	290,986	292,317	295,548
Total Debt Service Requirements	\$ 2,057,206	\$ 1,946,760	\$ 1,684,783
Coverage Ratio - Revenue Bonds			
Debts Service – 2003 & 2011	1.93	1.71	2.25
Combined Coverage Ratio - All Debt	1.66	1.45	1.86
Required Coverage Ratio			
Revenue Bonds - 2003 & 2011	1.20	1.20	1.20
Rural Development	1.00	1.00	1.00

Does not include grant revenues or capital contribution

- The majority of the District's debt is paid from revenues, excluding capital contributions, The District is required by Bond Trust Agreements to meet a revenue to debt ratio of 1.20 for its 2003 Revenue Bonds and a 1.0 ratio for Rural Development Bonds.
- Special Assessment debt is paid with the collection of certified assessments by the local auditor's office, which is forwarded to the District for debt service. Properties meeting certain agricultural usage requirements may defer payment of the assessments until such time as the usage changes. Agricultural deferments are paid from the District Revenues.

CASH

Cash and cash equivalents on December 31, 2012 were \$5.8 million. \$2.55 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 \$265 thousand in net position for the year ending December 31, 2013. 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, 2012 and 2011

	<u>2012</u>	<u>2011</u>
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 3,249,505	\$ 3,024,830
Accounts Receivable (Net of Allowance for Doubtful Accounts)	946,777	913,373
Special Assessments Receivable - Current Portion	436,000	421,000
Accrued Interest Receivable	228,101	166,783
Inventory	457,606	445,691
Prepaid Expenses	456,632	295,756
TOTAL CURRENT ASSETS	<u>5,774,621</u>	<u>5,267,433</u>
NONCURRENT ASSETS		
Restricted Assets:		
Equity in Pooled Cash and Cash Equivalents	2,548,470	2,578,056
TOTAL RESTRICTED ASSETS	<u>2,548,470</u>	<u>2,578,056</u>
Capital Assets:		
Water, Production, Treatments and Distribution Systems	60,051,273	59,939,457
Building, Office and Equipment	4,810,277	4,817,300
Total Depreciable Capital Assets	64,861,550	64,756,757
Less: Accumulated Depreciation	(26,816,426)	(25,295,909)
Net Depreciable Capital Assets	38,045,124	39,460,848
Land	234,806	234,806
Construction in Progress	1,991,353	1,483,130
NET CAPITAL ASSETS	<u>40,271,283</u>	<u>41,178,784</u>
Other Assets:		
Special Assessments Receivable-Non Current	2,311,715	2,747,715
Deferred Charges	298,179	328,605
TOTAL OTHER ASSETS	<u>2,609,894</u>	<u>3,076,320</u>
TOTAL ASSETS	<u>\$ 51,204,268</u>	<u>\$ 52,100,593</u>
LIABILITIES		
CURRENT LIABILITIES		
Accounts Payable	\$ 126,314	\$ 147,020
Accrued Liabilities	109,428	109,428
Tenant Deposits	75,989	70,897
Accrued Interest	134,264	141,780
Current Maturities of Long Term Obligations	1,694,237	1,674,548
TOTAL CURRENT LIABILITIES	<u>2,140,232</u>	<u>2,143,673</u>
LONG TERM LIABILITIES		
Deferred Revenue	99,461	99,461
Long Term Obligations	16,108,777	17,743,517
TOTAL LONG TERM LIABILITIES	<u>16,208,238</u>	<u>17,842,978</u>
TOTAL LIABILITIES	<u>18,348,470</u>	<u>19,986,651</u>
NET POSITION		
Net Investment in Capital Assets	22,468,269	21,760,718
Restricted	2,548,470	2,578,056
Unrestricted	7,839,059	7,775,168
TOTAL NET POSITION	<u>\$ 32,855,798</u>	<u>\$ 32,113,942</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 51,204,268</u>	<u>\$ 52,100,593</u>

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

**SOUTHWEST REGIONAL WATER DISTRICT
BUTLER COUNTY
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION**
For the Years Ended December 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
OPERATING REVENUES		
Water Sales	\$ 7,541,802	\$ 7,139,257
Sale of New Taps	287,425	253,763
Forfeited Discounts	170,836	173,486
Other	165,271	157,186
TOTAL OPERATING REVENUES	<u>8,165,334</u>	<u>7,723,692</u>
OPERATING EXPENSES		
Operations	4,087,533	4,048,049
Maintenance	856,016	1,045,765
Depreciation	1,689,041	1,746,599
TOTAL OPERATING EXPENSES	<u>6,632,590</u>	<u>6,840,413</u>
OPERATING INCOME	1,532,744	883,279
NON OPERATING REVENUES (EXPENSES)		
Intergovernmental	49,936	323,796
Interest Income	191,505	192,016
Interest Expense	(1,032,820)	(1,073,801)
Other Non Operating Revenue (Expense)	491	2,833
NET NON OPERATING REVNU (EXPENSES)	<u>(790,888)</u>	<u>(555,156)</u>
CHANGE IN NET POSITION BEFORE CAPITAL CONTRIBUTIONS	741,856	328,123
Capital Contribution-Owner/Developer	-	49,658
TOTAL CAPITAL CONTRIBUTIONS	<u>-</u>	<u>49,658</u>
CHANGE IN NET POSITION	741,856	377,781
NET POSITION, BEGINNING OF YEAR	<u>32,113,942</u>	<u>31,736,161</u>
NET POSITION, END OF YEAR	<u>\$ 32,855,798</u>	<u>\$ 32,113,942</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, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Cash Flows From Operating Activities:		
Receipts from Customers	\$ 7,966,658	\$ 7,635,624
Receipts from Others	165,272	157,186
Payments to Suppliers and Vendors	(2,302,171)	(2,540,708)
Payments to Employees	(2,799,357)	(2,802,138)
Net Cash Provided by Operating Activities	<u>3,030,402</u>	<u>2,449,964</u>
Cash Flows From Capital and Related Financing Activities:		
Proceeds from Capital Grants	49,936	323,796
Acquisition & Construction of Capital Assets	(781,540)	(1,413,995)
Payments on Borrowings	(1,615,051)	(4,734,782)
Proceeds from Debt Issuance	-	4,091,351
Collections on Special Assessments	421,000	404,468
Interest Paid	(1,040,336)	(1,115,569)
Net Cash Used By Capital and Related Financing Activities	<u>(2,965,991)</u>	<u>(2,444,731)</u>
Cash Flows From Noncapital Financing Activities:		
Other Non Operating Revenues	491	2,833
Net Cash Provided (Used) By Noncapital Financing Activities	<u>491</u>	<u>2,833</u>
Cash Flows From Investing Activities:		
Interest Received	130,187	165,014
Net Cash Provided By Capital Financing Activities	<u>130,187</u>	<u>165,014</u>
Net Increase/Decrease in Cash and cash Equivalents	195,089	173,080
Cash and Cash Equivalents, January 1,	5,602,886	5,429,806
Cash and Cash Equivalents, December 31,	<u>\$ 5,797,975</u>	<u>\$ 5,602,886</u>
Restricted Cash	\$ 2,548,470	\$ 2,578,056
Unrestricted Cash	3,249,505	3,024,830
Total Cash	<u>\$ 5,797,975</u>	<u>\$ 5,602,886</u>
Reconciliation of Change in Net Assets to Net Cash Provided by Operating Activities:		
Operating Income	\$ 1,532,744	\$ 883,279
Adjustments to Reconcile Net Income to Net Cash from Operating Activities:		
Depreciation Expense	1,689,041	1,746,599
(Increase) Decrease in Accounts Receivable	(33,404)	69,117
(Increase) Decrease in Prepaid Items	(160,876)	(150,103)
(Increase) Decrease in Materials and Supplies Inventory	(11,915)	(41,782)
(Increase) Decrease in Deferred Charges	30,426	(60,054)
Increase (Decrease) in Accounts Payable	(20,706)	4,816
Increase (Decrease) in Accrued Liabilities	-	(10,557)
Increase (Decrease) in Tenant Deposits	5,092	8,649
Total Adjustments	<u>1,497,658</u>	<u>1,566,685</u>
Net Cash Provided by Operating Activities	<u>\$ 3,030,402</u>	<u>\$ 2,449,964</u>

Developers dedicated water lines with total costs of \$49,658 in 2011, with such contributions recorded as owner/developer capital contributions.

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS

For the Years Ended December 31, 2012 and 2011

1. NATURE OF ORGANIZATION

Southwest Regional Water District (hereafter referred to as SWRWD) (the District) was created, September 1, 1992, by the Court of Common Pleas of Butler County, Ohio to provide water services to the residents of Butler County in accordance with the provisions of Section 6119.01 of the Revised Code. SWRWD is managed by a Board consisting of nine (9) trustees.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

1. **Basis of Presentation - Fund Accounting**

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

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

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

2. **Basis of Accounting**

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

3. **Budgetary Process**

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

4. **Operating Revenues and Expenses**

Operating revenues are those revenues that are generated directly from charges for metered water sales and other services. Operating expenses are necessary costs incurred to provide the good or service that are the primary activity of the District.

5. **Accounts Receivable**

Accounts receivable are shown at their net realizable value. SWRWD has set up an allowance for doubtful accounts for fiscal year 2012. Amounts determined to potentially be uncollectible are set up as an allowance and a corresponding entry to an expense account is recorded during the year that the accounts are determined to be potentially uncollectible.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS

For the Years Ended December 31, 2012 and 2011

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

6. Restricted Assets

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

7. Capital Assets

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

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

8. Provision for Income Tax

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

9. Cash and Cash Equivalents

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

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

STAR Ohio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price which is the price the investment could be sold for on December 31, 2012.

10. Compensated Absences

The District does not have any significant compensated absences.

11. Net Position

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS

For the Years Ended December 31, 2012 and 2011

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

12. Inventories and Prepaid Items

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

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

13. Change in Accounting Principles

For 2012, the District has implemented Governmental Accounting Standards Board (GASB) Statement No. 63, "Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position". GASB Statement No. 63 provides guidance for reporting deferred outflows or resources, deferred inflows of resources, and net position in a statement of financial position and related note disclosures. These changes were incorporated in the District's 2012 financial statements; however, there was no material effect on beginning net position/fund balance.

3. CASH AND INVESTMENTS

State statutes classify monies held by the District into three categories.

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

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

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

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS

For the Years Ended December 31, 2012 and 2011

3. CASH AND INVESTMENTS (continued)

3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations for the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in items (1) and (2) of this footnote and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAR Ohio);
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred eighty days in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time.

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

The following information classifies deposits and investments by categories of risk as defined in GASB Statement No. 3, "Deposits with Financial Institutions, Investments (including Repurchase Agreements) and Reverse Repurchase Agreements".

Deposits – Custodial credit risk for deposits is the risk that in the event of bank failure, the District will not be able to recover deposits or collateral securities that are in the possession of an outside party. The carrying amount of the SWRWD deposits as of December 31, 2012 was \$3,188,842 and the bank balance was \$3,486,387. The carrying amount of the SWRWD deposits as of December 31, 2011 was \$2,964,383 and the bank balance was \$2,794,192. Of the bank balance:

1. \$704,328 as of December 31, 2012 and \$702,629 as of December 31, 2011 was covered by federal depository insurance; and
2. \$2,782,059 as of December 31, 2012 and 2,091,563 as of December 31, 2011 was collateralized third party trustee in single institution collateral pools, securing all public funds on deposit with specific depository institutions and not subject to custodial credit risk.

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS

For the Years Ended December 31, 2012 and 2011

3. CASH AND INVESTMENTS (continued)

Investments – As of December 31, 2012 and 2011, the District had the following investments which mature in less than one year:

	<u>Carrying and Fair Value</u>		<u>Percentage of Total Investments</u>	
	2012	2011	2012	2011
Star Ohio	\$ 285,164	\$ 284,947	10.9%	10.8%
Fifth Third US Treasury – Series 1999 Reserve	413,078	413,073	15.8%	15.7%
Fifth Third US Treasury – Series 2003 Reserve	1,410,702	1,456,702	54.1%	55.2%
Fifth Third US Treasury – Series 2011 Reserve	314,250	314,250	12.0%	11.9%
Fifth Third US Treasury – 2003 Bond Fund – Int.	74,912	53,871	2.9%	2.0%
Fifth Third US Treasury – 2003 Bond Fund – Prin.	85,067	85,464	3.3%	3.2%
Fifth Third US Treasury – 2011 Bond Fund – Int.	12,625	17,279	0.5%	0.7%
Fifth Third US Treasury – 2011 Bond Fund – Prin.	13,335	12,917	0.5%	0.5%
Total Fifth Third US Treasury	2,323,969	2,353,556		
Total Investments	<u>\$ 2,609,133</u>	<u>\$ 2,638,503</u>		

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

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

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

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

Concentration of Credit Risk: Concentration of credit risk is the risk of loss attributed to the magnitude of a government’s investment in a single issuer. The District’s investment policy does not address concentration of credit risk. The District has invested 10.9% of its investments in STAR Ohio.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS

For the Years Ended December 31, 2012 and 2011

4. CAPITAL ASSETS

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

	Balance at 12/31/2011	Additions	Retirements Disposals	Balance at 12/31/2012
Non-Depreciable:				
Land	\$ 234,806	\$ -	\$ -	\$ 234,806
Construction in Progress	1,483,130	508,223	-	1,991,353
Total Non-Depreciable	1,717,936	508,223	-	2,226,159
Wells	978,346	-	-	978,346
Booster Stations & Equipment	3,586,427	16,953	-	3,603,380
Treatment Plants	10,555,968	-	-	10,555,968
Water Tanks & Standpipes	5,886,117	-	-	5,886,117
Distribution System	26,989,563	-	-	26,989,563
GIS System	274,245	-	-	274,245
Metered Services	10,074,502	94,862	-	10,169,364
Flush Hydrants	183,846	-	-	183,846
6" Hydrants	1,410,443	-	-	1,410,443
Structures & Improvements	2,448,667	-	-	2,448,667
Office Furniture & Equipment	655,283	33,349	-	688,632
Transportation/Constr. Equipment	992,363	131,013	(171,384)	951,992
SCADA System	522,147	-	-	522,147
Misc. Plant & Repair Equipment	175,602	-	-	175,602
Laboratory Equipment	23,238	-	-	23,238
Total Depreciable	64,756,757	276,177	(171,384)	64,861,550
Total at Historical Costs	\$ 66,474,693	\$ 784,400	\$ (171,384)	\$ 67,087,709
Accumulated Depreciation				
Wells	\$ (540,328)	\$ (19,062)	\$ -	\$ (559,390)
Booster Stations & Equipment	(1,227,435)	(87,224)	-	(1,314,659)
Treatment Plants	(4,065,588)	(258,778)	-	(4,324,366)
Water Tanks & Standpipes	(2,015,595)	(169,166)	-	(2,184,761)
Distribution System	(10,396,716)	(657,477)	-	(11,054,193)
GIS System	(135,853)	(23,527)	-	(159,380)
Metered Services	(3,531,445)	(287,696)	-	(3,819,141)
Flush Hydrants	(81,864)	(4,374)	-	(86,238)
6" Hydrants	(399,082)	(34,285)	-	(433,367)
Structures & Improvements	(1,096,050)	(59,202)	-	(1,115,252)
Office Furniture & Equipment	(518,648)	(29,798)	-	(548,446)
Transportation/Constr. Equipment	(836,690)	(41,860)	168,525	(710,025)
SCADA System	(281,064)	(12,542)	-	(293,606)
Misc. Plant & Repair Equipment	(146,313)	(4,051)	-	(150,364)
Laboratory Equipment	(23,238)	-	-	(23,238)
Total Accumulated Depreciation	(25,295,909)	\$ (1,689,042)	168,525	(26,816,426)
Capital Assets, Net	\$ 41,178,784	\$ (904,643)	\$ (2,859)	\$ 40,271,283

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

NOTES TO THE BASIC FINANCIAL STATEMENTS

For the Years Ended December 31, 2012 and 2011

	Balance at 12/31/2010	Additions	Retirements Disposals	Balance at 12/31/2011
Non-Depreciable:				
Land	\$ 234,806	\$ -	\$ -	\$ 234,806
Construction in Progress	509,724	1,091,246	(117,840)	1,483,130
Total Non-Depreciable	744,530	1,091,246	(117,840)	1,717,936
Wells	978,346	-	-	978,346
Booster Stations & Equipment	3,586,427	-	-	3,586,427
Treatment Plants	10,555,968	-	-	10,555,968
Water Tanks & Standpipes	5,886,117	-	-	5,886,117
Distribution System	26,879,183	110,380	-	26,989,563
GIS System	274,245	-	-	274,245
Metered Services	9,973,620	100,882	-	10,074,502
Flush Hydrants	183,846	-	-	183,846
6" Hydrants	1,410,443	-	-	1,410,443
Structures & Improvements	2,354,767	93,900	-	2,448,667
Office Furniture & Equipment	621,796	33,487	-	655,283
Transportation/Constr. Equipment	870,746	121,617	-	992,363
SCADA System	522,147	-	-	522,147
Misc. Plant & Repair Equipment	145,623	29,979	-	175,602
Laboratory Equipment	23,238	-	-	23,238
Total Depreciable	64,266,512	490,245	-	64,756,757
Total at Historical Costs	\$ 65,011,042	\$ 1,581,491	\$ (117,840)	\$ 64,474,693
Accumulated Depreciation:				
Wells	\$ (520,458)	\$ (19,870)	\$ -	\$ (540,328)
Booster Stations & Equipment	(1,137,529)	(89,906)	-	(1,227,435)
Treatment Plants	(3,796,650)	(268,938)	-	(4,065,588)
Water Tanks & Standpipes	(1,838,671)	(176,924)	-	(2,015,595)
Distribution System	(9,713,765)	(682,951)	-	(10,396,716)
GIS System	(108,175)	(27,678)	-	(135,853)
Metered Services	(3,233,635)	(297,810)	-	(3,531,445)
Flush Hydrants	(77,292)	(4,572)	-	(81,864)
6" Hydrants	(363,913)	(35,169)	-	(399,082)
Structures & Improvements	(1,024,443)	(71,607)	-	(1,096,050)
Office Furniture & Equipment	(485,343)	(33,305)	-	(518,648)
Transportation/Constr. Equipment	(812,127)	(24,563)	-	(836,690)
SCADA System	(267,960)	(13,104)	-	(281,064)
Misc. Plant & Repair Equipment	(146,113)	(200)	-	(146,313)
Laboratory Equipment	(23,238)	-	-	(23,238)
Total Accumulated Depreciation	(23,549,312)	(1,746,597)	-	(25,295,909)
Capital Assets, Net	\$ 41,461,730	\$ (165,106)	\$ (117,840)	\$ 41,178,784

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

NOTES TO THE BASIC FINANCIAL STATEMENTS

For the Years Ended December 31, 2012 and 2011

5. SHORT TERM OBLIGATIONS

During 2011, the District paid off, with the issuance of Revenue Bonds Series 2011, \$3,250,000 in Bond Anticipation Notes issued in 2010 that temporarily financed construction of public water improvements. The notes had an interest rate of 1.75% and matured on March 9, 2011. No new Bonds were issued in 2012.

Description	12/31/2010 Balance	Issued 2011	Payments in 2011	12/31/2011 Balance	Due Within One Year
Bond Anticipation Note	\$ 3,250,000	\$ -	\$ 3,250,000	\$ -	\$ -

6. LONG TERM OBLIGATIONS

Long-term obligations consist of:

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS

For the Years Ended December 31, 2012 and 2011

6. LONG TERM OBLIGATIONS (continued)

Description	12/31/2010 Balance	Issued in 2010	Payments 2011	12/31/2011 Balance	Due Within One Year
USDA, Rural Development Bonds	\$ 2,424,601	\$ -	\$ 69,140	\$ 2,355,461	\$ 73,548
Special Assessment Water Line Extension Bonds - Series 1994	40,000	-	10,000	30,000	10,000
Special Assessment Water Line Extension Bonds - Series 1996	420,000	-	60,000	360,000	65,000
Special Assessment Water Line Extension Bonds - Series 1997	47,000	-	6,000	41,000	6,000
Special Assessment Water Line Extension Bonds - Series 1999	2,860,000	-	255,000	2,605,000	270,000
Special Assessment Water Line Extension Bonds - Series 2000	380,000	-	30,000	350,000	30,000
Special Assessment Water Line Extension Bonds - Series 2002	525,000	-	35,000	490,000	35,000
Special Assessment Water Line Extension Bonds - Series 2007	116,000	-	5,000	111,000	5,000
Revenue Bonds Series 2003	10,716,482	-	1,028,300	9,688,182	1,025,000
Revenue Bonds Series 2011		4,091,351	65,000	4,026,351	155,000
Advance note payable to State of Ohio	62,441	-	-	62,441	-
Total before Premium and defeased interest	17,591,524	4,091,351	1,563,440	20,119,435	1,674,548
Series 2003 - 1995 Bond Refunding Premium and defeased interest	(780,028)	-	(78,658)	(701,370)	(78,658)
Totals	\$ 16,811,496	\$4,091,351	\$ 1,484,782	\$19,418,065	\$ 1,595,890

As of December 31, 2012, the maturities of the principal amount of long-term debt for the five years ending:

Year	Principal	Interest
2013	\$ 1,694,237	\$ 883,813
2014	1,730,224	810,933
2015	1,872,971	735,636
2016	1,871,173	645,356
2017	1,784,177	551,059
2018-2022	5,986,222	1,514,448
2023-2027	2,063,351	663,262
2028-2030	<u>1,263,000</u>	<u>121,391</u>
	18,265,355	5,925,898
1995 Bond Refunding Defeased interest	(622,712)	
2003 Bond Issue Premium	144,881	
2011 Bond Issue Premium	<u>15,490</u>	
Total	\$ 17,803,014	\$ 5,925,898

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

NOTES TO THE BASIC FINANCIAL STATEMENTS

For the Years Ended December 31, 2012 and 2011

6. LONG TERM OBLIGATIONS (continued)

During 2003 the District advance refunded certain USDA Rural Development Bonds and defeased certain maturities of the Series 1995 Revenue Bonds and issued \$16,960,000 of Southwest Regional Water District (Ohio) Waterworks System Revenue Refunding and Improvement Bonds, Series 2003. The difference between the cash flow necessary to fund the previous debt over its life and the new debt is \$1,113,757 less for the new debt. The economic gain that arose because of the refunding was \$871,652 present value at an interest rate of 3.84%

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

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

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

The District has pledged future water customer revenues, net of specific operating expenses, to repay \$16,960,000 in water revenue bonds issued in 2003. Proceeds from the bonds advance refunded certain USDA Rural Development Bonds and defeased certain maturities of the Series 1995 Revenue Bonds. The bonds are payable solely from water customer net revenues and are payable through 2020. Annual principal and interest payments remaining on the bonds are expected to require approximately 70 percent of net revenues. The total principal and interest remaining to be paid on the bonds is \$8,644,881. Principal and interest paid for the current year and total customer net revenues were \$1,456,703 and \$3,413,781 respectively.

Subsequent to the issuance of the 2003 bonds and the defeasance of certain maturities of the 1995 bonds the remaining maturities of the 1995 bonds were paid in 2005.

The District has pledged future water customer revenues, net of specific operating expenses, to repay \$3,105,677 in water revenue bonds issued in 1994. Proceeds from the bonds refinanced Rural Development mortgage notes. The bonds are payable solely from water customer net revenues and are payable through 2029. Annual principal and interest payments remaining on the bonds are expected to require approximately 10 percent of net revenues. The total principal and interest remaining to be paid on the bonds is \$2,281,912. Principal and interest paid for the current year and total customer net revenues were \$233,708 and \$3,413,781 respectively.

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS

For the Years Ended December 31, 2012 and 2011

6. LONG TERM OBLIGATIONS (continued)

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%. The total principal and interest remaining to be paid on the bonds is \$3,870,490. Principal and interest paid for the current year and total customer net revenues were \$309,518 and \$3,413,781 respectively.

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

7. ASSESSMENTS RECEIVABLE

Assessment accounts receivable are from completed construction projects and the issuance of final assessments to residents to cover those costs. The receivables are collected through property tax billing. Included in the balances at December 31, 2012 and December 31, 2011 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, 2012 and December 31, 2011 are as follows:

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

NOTES TO THE BASIC FINANCIAL STATEMENTS

For the Years Ended December 31, 2012 and 2011

7. ASSESSMENTS RECEIVABLE (continued)

December 31, 2012

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

	<u>Total Assessed</u>	<u>Prepaid Assessments</u>	<u>County Auditor and Deferred Assessments Paid</u>	<u>% Collected</u>
1994 Assessments	\$ 227,778	\$ -	\$ 120,000	53%
1996 Assessments	889,478	-	635,000	71%
1997 Assessments	94,579	-	57,000	60%
1999 Assessments	4,322,014	19,093	2,395,000	55%
2000 Assessments	579,383	12,144	260,000	45%
2002 Assessments	736,635	8,960	275,000	37%
2007 Assessments	116,045	-	15,000	13%
Total Receivable (\$3,168,715)	<u>\$ 6,965,912</u>	<u>\$ 40,197</u>	<u>\$ 3,757,000</u>	54%

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

Collection Year	Total Assessments Levied	Current Assessments Collected	% of Total Collections to Assessments Levied	Delinquent Assessments Collected*	Total Collections as a % of Current Assessments Levied
2012	\$ 572,208	\$ 509,797	89%	\$ 38,912	96%
2011	572,703	509,438	89%	45,877	97%
2010	572,703	515,685	90%	51,455	99%
Total	<u>\$ 1,717,614</u>	<u>\$ 1,534,920</u>	89%	<u>\$ 136,244</u>	97%

* Collected Delinquent Assessments include penalty and interest

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

NOTES TO THE BASIC FINANCIAL STATEMENTS

For the Years Ended December 31, 2012 and 2011

8. DEFINED BENEFIT RETIREMENT PLAN

Ohio Public Employees Retirement Systems of Ohio (PERS) administers three separate pension plans as described below:

- 1) The Traditional Pension Plan – a cost-sharing multiple-employer defined benefit pension plan.
- 2) The Member-Directed Plan – a defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20% per year). Under the Member-Directed Plan, members accumulate retirement assets equal to the value of member and (vested) employer contributions plus any investment earnings.
- 3) The Combined Plan – a cost-sharing multiple-employer defined benefit pension plan. Under the Combined Plan, OPERS invests employer contribution to provide a formula retirement benefit similar in nature to the Traditional Plan benefit. Member contributions, the investment of which is self-directed by the members, accumulate retirement assets in a manner similar to the Member-Directed Plan.

OPERS provides retirement, disability, survivor and death benefits and annual cost of living adjustments to members of the Traditional Pension and Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits.

Authority to establish and amend benefits is provided by state statute per Chapter 145 of the Ohio Revised Code.

OPERS issues a stand-alone financial report. Interest parties may obtain a copy by visiting <https://www.opers.org/investments/cafr.shtml>, writing to OPERS, 277 East Town Street, Columbus, Ohio 43215-4642 or calling (614) 222-5601 or 1-800-222-7377.

The Ohio Revised Code provides statutory authority for member and employer contributions. For 2012, member and employer contribution rates were consistent across all three plans. Members in the state and local divisions may participate in all three plans.

The 2012 member contribution rates were 10.0% of covered payroll for members in state and local classifications.

The 2012 employer contribution rate for state employers and local employers was 14.00% of covered payroll.

The District's contributions to OPERS for the years ended December 31, 2012, 2011, and 2010, were \$289,949, \$290,252 and \$287,477 respectively.

9. POST EMPLOYMENT BENEFITS

A. Plan Description

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, 2012 and 2011

9. POST EMPLOYMENT BENEFITS (continued)

A. Plan Description (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.

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. Funding Policy

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 contribution rates are expressed as a percentage of the covered payroll of active members. In 2012, state and local employers contributed at a rate of 14.00% of covered payroll. 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 4.0% during calendar year 2012. The portion of employer contributions allocated to health care for members in the Combined Plan was 6.05% during the year 2012. The portion of employer contribution allocated to health care for the calendar year beginning January 1, 2012 remained the same, but they are subject to change based on Board action. Employers will be notified if the portion allocated to health care changes during calendar year 2012. 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. Information from employer's records

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 \$83,927 for 2012, \$82,925 for 2011, \$104,440 for 2010.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS

For the Years Ended December 31, 2012 and 2011

9. POST EMPLOYMENT BENEFITS (continued)

D. OPERS Retirement Board Implements it Health Care Preservation Plan

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

10. RISK MANAGEMENT

The SWRWD is exposed to various risks of loss to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. For the year 2012 the SWRWD contracted for the following insurance coverage:

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

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

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

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

11. SUBSEQUENT EVENTS

In preparing these financial statements, the District considered events and transactions for potential disclosure through June 21, 2013.

Perry & Associates

Certified Public Accountants, A.C.

www.perrycpas.com

MARIETTA
428 Second Street
Marietta, OH 45750
(740) 373-0056
(740) 373-2402 Fax

PARKERSBURG
1035 Murdoch Avenue
Parkersburg, WV 26101
(304) 422-2203
(304) 428-5587 Fax

ST. CLAIRSVILLE
121 E. Main Street
St. Clairsville, OH 43950
(740) 695-1569
(740) 695-5775 Fax

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

June 21, 2013

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

To the Board of Trustees:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the business-type activities of the **Southwest Regional Water District**, Butler County, Ohio, (the District) as of and for the years ended December 31, 2012 and 2011, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated June 21, 2013, wherein we noted the District has adopted Governmental Accounting Standards Board Statement No. 63.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

As part of reasonably assuring whether the District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, opining on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

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.

Respectfully Submitted,

A handwritten signature in cursive script that reads "Perry & Associates CPAs A.C.".

Perry and Associates
Certified Public Accountants, A.C.



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
JULY 23, 2013**