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**SOUTHWEST REGIONAL WATER DISTRICT
BUTLER COUNTY
Regular Audit
For the Years Ended December 31, 2014 and 2013**

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Dave Yost • Auditor of State

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

We have reviewed the *Independent Auditor's Report* of the Southwest Regional Water District, Butler County, prepared by Perry & Associates, Certified Public Accountants, A.C., for the audit period January 1, 2013 through December 31, 2014. 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

May 6, 2016

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**SOUTHWEST REGIONAL WATER DISTRICT
BUTLER COUNTY**

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INDEPENDENT AUDITOR'S REPORT

June 26, 2015

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, 2014 and 2013, 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.

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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, 2014 and 2013, and the changes in its financial position and its cash flows for the years then ended in accordance with the accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require this presentation to include *Management's discussion and analysis*, as 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 26, 2015, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.



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



MANAGEMENT DISCUSSION AND ANALYSIS **(Unaudited)**

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

FINANCIAL HIGHLIGHTS

- The total assets of SWRWD exceeded total liabilities on December 31, 2014 by \$35.17 million and \$33.94 million on December 31, 2013.
- The District's net position increased \$1,227.96 thousand in 2014 and increased \$1,089.48 thousand in 2013.
- The District's Operating Revenues increased by \$148.59 thousand (1.908%) in 2014 and decreased by \$376.744 thousand (-436%) in 2013, with Operating and Maintenance Expenses decreasing \$206.39 thousand (-3.181%) in 2014 and decreasing \$140.45 thousand (-2.117%) in 2013.

OVERVIEW OF BASIC FINANCIAL STATEMENTS

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

The **Statements of Net Position** includes all of the District's Assets and Liabilities. These statements provide information about the nature and amounts of investments in resources (assets) owned by the District, and obligations owed by the District (liabilities). The District's net position (equity) is the difference between assets and liabilities.

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

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

NET POSITION

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

Table 1

	2014	2013	Change 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%
Total Assets	49,405,985	49,765,194	(359,209)	-0.7%
Deferred Outflows of Resources	193,685	219,697	(26,012)	-11.8%
Total Assets and Deferred Outflows of Resources	49,599,670	49,984,891	(385,221)	-0.8%
Long Term Liabilities	12,263,402	13,910,168	(1,646,766)	-11.8%
Other Liabilities	2,163,029	2,129,443	33,586	1.6%
Total Liabilities	14,426,431	16,039,611	(1,613,180)	-10.1%
Net Investment in Capital Assets	25,288,961	24,923,110	365,851	1.5%
Restricted	1,781,797	1,873,470	(91,673)	-4.9%
Unrestricted	8,102,481	7,148,700	953,781	13.3%
Total Net Position	\$ 35,173,239	\$ 33,945,280	\$ 1,227,959	3.6%
	2013	2012	Change Amount	%
Current and Other Assets	\$ 9,540,851	\$ 10,634,806	\$ (1,093,955)	-10.3%
Capital Assets	40,224,343	40,271,283	(46,940)	-0.1%
Total Assets	49,765,194	50,906,089	(1,140,895)	-2.2%
Deferred Outflows of Resources	219,697	298,179	(78,482)	-26.3%
Total Assets and Deferred Outflows of Resources	49,984,891	51,204,268	(1,219,377)	-2.4%
Long Term Liabilities	13,910,168	16,208,238	(2,298,070)	-14.2%
Other Liabilities	2,129,443	2,140,232	(10,789)	-0.5%
Total Liabilities	16,039,611	18,348,470	(2,308,859)	-12.6%
Net Investment in Capital Assets	24,923,110	22,766,448	2,156,662	9.5%
Restricted	1,873,470	2,548,470	(675,000)	-26.5%
Unrestricted	7,148,700	7,540,880	(392,180)	-5.2%
Total Net Position	\$ 33,945,280	\$ 32,855,798	\$ 1,089,482	3.3%

- The District's Net Position increased \$1,227.9 thousand dollars in 2014. The increase is a result of decreased operating expenses and a slight increase in new connections.
- The District's Net Position increased \$1,089.5 thousand dollars in 2013. This increase is a result of decreased operating expenses and increased grant monies received during the year.
- The District incurred no new long term debt in 2014.
- The District incurred \$7,000,000 of new long term debt in 2013 to refund the 2003 bonds.

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

	2014	2013	Change Amount	%
Operating Revenues	\$ 7,937,185	\$ 7,788,591	\$ 148,594	1.9%
Total Revenues	<u>7,937,185</u>	<u>7,788,591</u>	<u>148,594</u>	<u>1.9%</u>
Operations Expenses	3,907,717	4,152,100	(244,383)	-5.9%
Maintenance Expenses	667,958	650,999	16,959	2.6%
Depreciation Expenses	1,706,462	1,685,432	21,030	1.2%
Total Expenses	<u>6,282,137</u>	<u>6,488,531</u>	<u>(206,394)</u>	<u>-3.2%</u>
Operating Income	1,655,048	1,300,060	354,988	27.3%
Non-Operating Revenues	259,525	723,651	(464,126)	-64.1%
Non-Operating Expenses	(686,614)	(934,229)	247,615	-26.5%
Change in Net Position	1,227,959	1,089,482	138,477	12.7%
Net Position, Beginning of Year	<u>33,945,280</u>	<u>32,855,798</u>	<u>1,089,482</u>	<u>3.3%</u>
Net Position, End of Year	<u>\$ 35,173,239</u>	<u>\$ 33,945,280</u>	<u>\$ 1,227,959</u>	<u>3.6%</u>
	2013	2012	Change Amount	%
Operating Revenues	\$ 7,788,591	\$ 8,165,334	\$ (376,743)	-4.6%
Total Revenues	<u>7,788,591</u>	<u>8,165,334</u>	<u>(376,743)</u>	<u>-4.6%</u>
Operations Expenses	4,152,100	4,087,533	64,567	1.6%
Maintenance Expenses	650,999	856,016	(205,017)	-24.0%
Depreciation Expenses	1,685,432	1,689,041	(3,609)	-0.2%
Total Expenses	<u>6,488,531</u>	<u>6,632,590</u>	<u>(144,059)</u>	<u>-2.2%</u>
Operating Income	1,300,060	1,532,744	(232,684)	-15.2%
Non-Operating Revenues	723,651	241,932	481,719	199.1%
Non-Operating Expenses	(934,229)	(1,032,820)	98,591	-9.5%
Change in Net Position	1,089,482	741,856	347,626	46.9%
Net Position, Beginning of Year	<u>32,855,798</u>	<u>32,113,942</u>	<u>741,856</u>	<u>2.3%</u>
Net Position, End of Year	<u>\$ 33,945,280</u>	<u>\$ 32,855,798</u>	<u>\$ 1,089,482</u>	<u>3.3%</u>

- Total Operating Revenues increased \$148 thousand (1.9%) in 2014 as metered water sales increased and a slight increase in new connections.
- Total Operating Revenues decreased \$377 thousand (-4.6%) in 2013 as metered water sales decreased and new connection fees increased.
- Total Operating and Maintenance Expenses (excluding depreciation) decreased \$227.42 thousand (-4.7%) in 2014.

- Total Operating and Maintenance Expenses (excluding depreciation) decreased \$140.4 thousand (-2.84%) in 2013.
- The total change in net position (net retained earnings) in 2014 was an increase of \$1,227.9 thousand compared to an increase of \$1,089.5 thousand in 2013.

CAPITAL ASSETS

The District had \$69.05 million invested in Capital Assets (before depreciation) at the end of 2014 and \$68.7 million in 2013, as shown in Table 3. This amount is an increase of \$367.6 (0.5%) million in 2014 from 2013 and \$1,590.8 thousand (2.4%) in 2013 from the previous year.

Table 3

	2014	2013	Change Amount	%
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%
Total Capital Assets	\$ 38,989,747	\$ 40,224,343	\$ (1,234,596)	-3.1%

	2013	2012	Change Amount	%
Land	\$ 234,806	\$ 234,806	\$ -	0.0%
Construction in Progress	3,372,401	1,991,353	1,381,048	69.4%
Wells	978,346	978,346	-	0.0%
Booster Stations and Equipment	3,612,652	3,603,380	9,272	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	10,269,293	10,169,364	99,929	1.0%
Flush Hydrants	183,846	183,846	-	0.0%
6" Hydrants	1,410,443	1,410,443	-	0.0%
Structures and Improvements	2,456,695	2,448,667	8,028	0.3%
Office Furniture and Equipment	624,675	635,218	(10,543)	-1.7%
Transportation/Construction Equip.	1,055,047	951,992	103,055	10.8%
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	68,625,084	67,034,295	1,590,789	2.4%
Accumulated Depreciation	(28,400,741)	(26,763,012)	(1,637,729)	6.1%
Total Capital Assets	\$ 40,224,343	\$ 40,271,283	\$ (46,940)	-0.1%

- The increase in Capital Assets before depreciation in 2014 is primarily from Construction in Progress, consisting mostly of Distribution System additions, upgrades to Distribution System and Water Tank Improvements. The increase in Capital Assets before depreciation in 2013 is primarily from Construction in Progress, consisting mostly of Distribution System additions and Water Tank Improvements.
- Refer to Note 4 of the basic financial statements for additional information on capital assets.

DEBT

Table 4 summarizes the District's long term debt. The District issues long term debt to finance many of its major construction projects. Revenue bonds are used to finance most general improvement projects. If special assessments are used to finance a project to extend water service into new areas, special assessment bonds are issued.

Table 4				
	2014	2013	Change Amount	%
Revenue Bonds				
2013 Revenue Bonds	\$ 6,000,000	\$ 7,000,000	\$ (1,000,000)	-14.3%
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 Water & Sewer Rotary Commission	62,441	62,441	-	0.0%
Long Term Debt	14,394,662	16,105,744	(1,711,082)	-10.6%
Less:				
Reacquisition Costs:				
Advance Refunding	(500,191)	(584,814)	84,623	-14.5%
Current Maturities	(1,730,530)	(1,710,223)	(20,307)	1.2%
Total Long Term Debt	\$ 12,163,941	\$ 13,810,707	\$ (1,646,766)	-11.9%
	2013	2012	Change Amount	%
Revenue Bonds				
2013 Revenue Bonds	\$ 7,000,000	\$ -	\$ 7,000,000	100.0%
2011 Revenue Bonds	3,709,627	3,870,490	(160,863)	-4.2%
2003 Revenue Bonds	-	8,644,881	(8,644,881)	-3.4%
Rural Development Bonds	2,203,676	2,281,913	(78,237)	-3.4%
Total Revenue Bonds	12,913,303	14,797,284	(1,883,981)	-12.7%
Special Assessment Bonds	3,130,000	3,566,000	(436,000)	-12.2%
Ohio Water & Sewer Rotary Commission	62,441	62,441	-	0.0%
Long Term Debt	16,105,744	18,425,725	(2,319,981)	-12.6%
Less:				
Reacquisition Costs:				
Advance Refunding	(584,814)	(622,711)	37,897	-6.1%
Current Maturities	(1,710,223)	(1,694,237)	(15,986)	0.9%
Total Long Term Debt	\$ 13,810,707	\$ 16,108,777	\$ (2,298,070)	-14.3%

- The District incurred no new debt in 2014.
- The District issued \$7,000,000 in new long term debt in 2013 to refinance the 2003 Revenue Bonds. The 2013 Revenue Bonds were assigned an As3 rating by Moody's Investors Services. The payment of principal and interest of the 2013 Revenue Bonds when due is guaranteed by a financial guaranty insurance policy issued by MBIA Insurance Corporation.

DEBT COVERAGE

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

	2014	2013	2012
Operating Revenue	\$ 7,937,185	\$ 7,788,591	\$ 8,165,334
Non-Operating Revenue	175,648	198,375	191,996
Total Revenue	8,112,833	7,986,966	8,357,330
Less Operations & Maintenance Expenses	(4,575,675)	(4,803,099)	(4,943,549)
Total Revenue Available for Debt	3,537,158	3,183,867	3,413,781
Revenue Bond Debt Service - 2003, 2011, 2013	1,438,345	1,722,120	1,766,220
Revenue Bond Debt Service - Rural Development & Special Assessment - Deficit Collections	267,185	283,226	290,986
Total Debt Service Requirements	\$ 1,705,530	\$ 2,005,346	\$ 2,057,206
Coverage Ratio - Revenue Bonds:			
Revenue Bonds - 2003, 2011, 2013	2.46	1.85	1.93
Combined Coverage Ratio - All Debts	2.07	1.59	1.66
Required Coverage Ratio			
Revenue Bonds - 2003, 2011, 2013	1.20	1.20	1.20
Rural Development	1.00	1.00	1.00

Does not include grant revenues or capital contribution.

The majority of the District's debt is paid from revenues, excluding capital contributions. The District is required by Bond Trust Agreements to meet a revenue to debt ratio of 1.20 for its 2011 and 2013 Revenue Bonds and a 1.00 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 deferrals are paid from the District's revenues.

Refer to Note 5 of the basic financial statements for additional information on debt.

CASH

Cash and cash equivalents on December 31, 2014 were \$6.1 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 \$693 thousand in net position for the year ending December 31, 2015. 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, 2014 and 2013**

	<u>2014</u>	<u>2013</u>
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 4,331,063	\$ 3,040,338
Accounts Receivable (Net of Allowance for Doubtful Accounts)	977,676	922,231
Special Assessments Receivable - Current Portion	477,000	467,000
Accrued Interest Receivable	365,525	293,170
Inventory	685,922	670,645
Prepaid Expenses	454,040	449,551
TOTAL CURRENT ASSETS	<u>7,291,226</u>	<u>5,842,935</u>
NONCURRENT ASSETS		
Restricted Assets:		
Equity in Pooled Cash and Cash Equivalents	1,781,797	1,873,470
TOTAL RESTRICTED ASSETS	<u>1,781,797</u>	<u>1,873,470</u>
Capital Assets:		
Water, Production, Treatments and Distribution Systems	60,264,363	60,160,473
Building, Office and Equipment	4,968,101	4,857,404
Total Depreciable Capital Assets	65,232,464	65,017,877
Less: Accumulated Depreciation	(30,065,364)	(28,400,741)
Net Depreciable Capital Assets	35,167,100	36,617,136
Land	234,806	234,806
Construction in Progress	3,587,841	3,372,401
NET CAPITAL ASSETS	<u>38,989,747</u>	<u>40,224,343</u>
Other Assets:		
Special Assessments Receivable-Non Current	1,343,215	1,824,446
TOTAL OTHER ASSETS	<u>1,343,215</u>	<u>1,824,446</u>
TOTAL ASSETS	<u>49,405,985</u>	<u>49,765,194</u>
DEFERRED OUTFLOWS OF RESOURCES		
Deferred Charges on Refunding	193,685	219,697
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	<u>\$ 49,599,670</u>	<u>\$ 49,984,891</u>
LIABILITIES		
CURRENT LIABILITIES		
Accounts Payable	\$ 155,390	\$ 130,299
Accrued Liabilities	102,200	118,566
Tenant Deposits	74,965	71,805
Accrued Interest	99,944	98,550
Current Maturities of Long Term Obligations	1,730,530	1,710,223
TOTAL CURRENT LIABILITIES	<u>2,163,029</u>	<u>2,129,443</u>
LONG TERM LIABILITIES		
Unearned Revenue	99,461	99,461
Long Term Obligations	12,163,941	13,810,707
TOTAL LONG TERM LIABILITIES	<u>12,263,402</u>	<u>13,910,168</u>
TOTAL LIABILITIES	<u>14,426,431</u>	<u>16,039,611</u>
NET POSITION		
Net Investment in Capital Assets	25,288,961	24,923,110
Restricted	1,781,797	1,873,470
Unrestricted	8,102,481	7,148,700
TOTAL NET POSITION	<u>35,173,239</u>	<u>33,945,280</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 49,599,670</u>	<u>\$ 49,984,891</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, 2014 and 2013

	<u>2014</u>	<u>2013</u>
OPERATING REVENUES		
Metered Water Sales to Customers	\$ 7,204,370	\$ 7,103,967
Sale of New Taps	351,594	300,200
Penalties	155,235	144,952
Miscellaneous	225,986	239,472
TOTAL OPERATING REVENUES	<u>7,937,185</u>	<u>7,788,591</u>
OPERATING EXPENSES		
Operations	3,907,717	4,152,100
Maintenance	667,958	650,999
Depreciation	1,706,462	1,685,432
TOTAL OPERATING EXPENSES	<u>6,282,137</u>	<u>6,488,531</u>
OPERATING INCOME	1,655,048	1,300,060
NON-OPERATING REVENUES (EXPENSES)		
Intergovernmental	83,877	525,276
Interest Income	175,574	198,236
Interest Expense	(686,614)	(934,229)
Other Non-Operating Revenue (Expense)	74	139
NET NON-OPERATING REVENUES (EXPENSES)	<u>(427,089)</u>	<u>(210,578)</u>
CHANGE IN NET POSITION	1,227,959	1,089,482
NET POSITION, BEGINNING OF YEAR	<u>33,945,280</u>	<u>32,855,798</u>
NET POSITION, END OF YEAR	<u>\$ 35,173,239</u>	<u>\$ 33,945,280</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, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Cash Flows From Operating Activities:		
Receipts from Customers	\$ 7,655,754	\$ 7,573,665
Receipts from Others	225,986	239,472
Payments to Suppliers and Vendors	(1,967,555)	(2,106,020)
Payments to Employees	(2,559,435)	(2,815,616)
Net Cash Provided by Operating Activities	<u>3,354,750</u>	<u>2,891,501</u>
Cash Flows From Capital and Related Financing Activities:		
Proceeds from Capital Grants	83,877	525,276
Acquisition & Construction of Capital Assets	(417,797)	(1,660,501)
Payments on Borrowings	(1,711,082)	(2,282,084)
Collections on Special Assessments	471,231	456,269
Interest Paid	(685,220)	(969,943)
Net Cash Used By Capital and Related Financing Activities	<u>(2,258,991)</u>	<u>(3,930,983)</u>
Cash Flows From Noncapital Financing Activities:		
Other Non Operating Revenues	74	139
Net Cash Provided By Noncapital Financing Activities	<u>74</u>	<u>139</u>
Cash Flows From Investing Activities:		
Interest Received	103,219	133,167
Net Cash Provided By Capital Financing Activities	<u>103,219</u>	<u>133,167</u>
Net Increase/(Decrease) in Cash and Cash Equivalents	1,199,052	(906,176)
Cash and Cash Equivalents, January 1,	4,913,808	5,819,984
Cash and Cash Equivalents, December 31,	<u>\$ 6,112,860</u>	<u>\$ 4,913,808</u>
Restricted Cash	\$ 1,781,797	\$ 1,873,470
Unrestricted Cash	4,331,063	3,040,338
Total Cash	<u>\$ 6,112,860</u>	<u>\$ 4,913,808</u>
Reconciliation of Change in Net Assets to Net Cash Provided by Operating Activities:		
Operating Income	\$ 1,655,048	\$ 1,300,060
Adjustments to Reconcile Net Income to Net Cash from Operating Activities:		
Depreciation Expense	1,706,462	1,685,432
(Increase) Decrease in Accounts Receivable	(55,445)	24,546
(Increase) Decrease in Prepaid Expenses	(4,489)	7,081
(Increase) Decrease in Inventory	15,277	(213,039)
(Increase) Decrease in Deferred Charges	26,012	78,482
Increase (Decrease) in Accounts Payable	25,091	3,985
Increase (Decrease) in Accrued Liabilities	(16,366)	9,138
Increase (Decrease) in Tenant Deposits	3,160	(4,184)
Total Adjustments	<u>1,699,702</u>	<u>1,591,441</u>
Net Cash Provided by Operating Activities	<u>\$ 3,354,750</u>	<u>\$ 2,891,501</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, 2014 and 2013

1. NATURE OF ORGANIZATION

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

1. Basis of Presentation - Fund Accounting

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

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

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

2. Basis of Accounting

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

3. Budgetary Process

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

4. Operating Revenues and Expenses

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS

For the Years Ended December 31, 2014 and 2013

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

5. Accounts Receivable

Accounts receivable are shown at their net realizable value. SWRWD has set up an allowance for doubtful accounts for fiscal year 2014. 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 \$129,852 for 2014 and \$122,020 for 2013.

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, 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, 2014.

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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS

For the Years Ended December 31, 2014 and 2013

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

12. Provision for Income Tax

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

13. Deferred Outflows of Resources

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

14. Implementation of New GASB Pronouncements

For 2014, the District has implemented Governmental Accounting Standards Board (GASB) Statement No. 61, "The Financial Reporting Entity; Omnibus – an Amendment of GASB Statements No. 14 and No. 34" and Statement No. 66, "Technical Corrections – 2012 – An Amendment of GASB Statements No. 10 and No. 62".

GASB Statement No. 61 improves financial reporting for a governmental financial reporting entity. The implementation of this Statement did not result in any change to the District's financial statements.

GASB Statement No. 66 improves accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions", and No. 62, "Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements". The implementation of this Statement did not result in any change to the District's financial statements.

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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS

For the Years Ended December 31, 2014 and 2013

3. CASH AND INVESTMENTS (continued)

Interim deposits are deposits of interim monies. Interim monies are those monies which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories.

Interim monies may be deposited or invested in the following securities:

1. Notes, bills, bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above, provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio; its political subdivisions, or other units or agencies of this State or its political subdivisions;
5. Time certificates of deposits or savings or deposit accounts, including, but not limited to, passbook accounts;
6. No-load money market mutual funds consisting of exclusively of obligations described in items (1) and (2) of this footnote and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
7. The State Treasurer's investment pool (STAR Ohio);
8. Securities lending agreements in which the District lends securities and the eligible institution agrees to exchange either securities described in division (1) or (2), or cash, or both securities and cash, equal value for equal value;
9. High grade commercial paper in an amount not to exceed five percent of the District's total average portfolio;
10. Banker's acceptance for a period not to exceed 270 days and in an amount not to exceed ten percent of the District's average portfolio.

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.

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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS

For the Years Ended December 31, 2014 and 2013

3. CASH AND INVESTMENTS (continued)

Deposits – Custodial credit risk for deposits is the risk that in the event of the failure of the counterparty, the District’s deposits may not be returned. According to state law, public depositories must give security for all public funds on deposit in excess of those funds that are insured by the Federal Deposit Insurance Corporation (FDIC) or by any other agency or instrumentality of the federal government. These institutions may either specifically collateralize individual accounts in lieu of amounts insured by the FDIC, or may pledge a pool of government securities valued at least 105% of the total value of public monies on deposit at the institution. The District’s policy is to deposit money with financial institutions that are able to abide by the laws governing insurance and collateralization of public funds.

The District’s deposit bank balances as of December 31, 2014 and 2013 were \$3,993,769 and \$2,753,476, respectively. The District’s balances were either covered by FDIC or collateralization by the financial institution’s public entity deposit pool in the manner described above. The carrying value of deposits as of December 31, 2014 and 2013 was \$4,015,707 and \$2,726,150, respectively. The District also had cash on hand of \$1,100.

Investments

The District had the following investments that mature in less than one year at December 31, 2014:

<u>Description</u>	<u>Fair Value</u>	
	<u>2014</u>	<u>2013</u>
STAR Ohio Plus	\$ 538,755	\$ 537,589
Fifth Third U.S. Treasury - Series 1999 Reserve	413,071	413,119
Fifth Third U.S. Treasury - Series 2011 Reserve	314,250	314,250
Fifth Third U.S. Treasury - Series 2013 Reserve	700,000	700,008
Fifth Third U.S. Treasury - 2011 Bond Fund - Interest	12,085	12,351
Fifth Third U.S. Treasury - 2011 Bond Fund - Principal	13,750	13,333
Fifth Third U.S. Treasury - 2013 Bond Fund - Interest	20,677	112,575
Fifth Third U.S. Treasury - 2013 Bond Fund - Principal	83,465	83,333
 Total Investments	 <u>\$ 2,096,053</u>	 <u>\$ 2,186,558</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. The District’s investment policy does not specifically address credit risk beyond the adherence to all relevant sections of the Ohio Revised Code. Investments in STAR Ohio were rated AAAM by Standard & Poor’s.

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% and 24.6% in STAR Ohio in 2014 and 2013, respectively.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS

For the Years Ended December 31, 2014 and 2013

4. CAPITAL ASSETS

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

	Balance 12/31/2013	Additions	Disposals	Balance 12/31/2014
Non Depreciable:				
Land	\$ 234,806	\$ -	\$ -	\$ 234,806
Construction in Progress	3,372,401	215,440	-	3,587,841
Total Non Depreciable	3,607,207	215,440	-	3,822,647
Depreciable:				
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
Total Depreciable	65,017,877	257,882	(43,295)	65,232,464
Total Capital Assets	\$ 68,625,084	\$ 473,322	\$ (43,295)	\$ 69,055,111
Accumulated Depreciation:				
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)
Total Accumulated Depreciation	(28,400,741)	(1,706,462)	41,839	(30,065,364)
Capital Assets, Net	\$ 40,224,343	\$ (1,233,140)	\$ (1,456)	\$ 38,989,747

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

NOTES TO THE BASIC FINANCIAL STATEMENTS

For the Years Ended December 31, 2014 and 2013

4. CAPITAL ASSETS (continued)

The following is a schedule of capital assets at December 31, 2013:

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS

For the Years Ended December 31, 2014 and 2013

5. LONG TERM OBLIGATIONS

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

<u>Description</u>	<u>Balance 12/31/2013</u>	<u>Issued in 2014</u>	<u>Payments 2014</u>	<u>Balance 12/31/2014</u>	<u>Due in One Year</u>
USDA Rural Development Bonds Special Assessment Water Line Extension Bonds - Series 1994	\$ 2,203,676	\$ -	\$ (83,222)	\$ 2,120,454	\$ 88,530
Special Assessment Water Line Extension Bonds - Series 1996	10,000	-	(10,000)	-	-
Special Assessment Water Line Extension Bonds - Series 1997	225,000	-	(70,000)	155,000	75,000
Special Assessment Water Line Extension Bonds - Series 1999	29,000	-	(7,000)	22,000	7,000
Special Assessment Water Line Extension Bonds - Series 2000	2,055,000	-	(300,000)	1,755,000	315,000
Special Assessment Water Line Extension Bonds - Series 2002	290,000	-	(35,000)	255,000	35,000
Special Assessment Water Line Extension Bonds - Series 2007	420,000	-	(40,000)	380,000	40,000
Revenue Bonds - Series 2011	101,000	-	(5,000)	96,000	5,000
Revenue Bonds - Series 2013	3,709,627	-	(160,860)	3,548,767	165,000
Advance Note Payable to State of Ohio	7,000,000	-	(1,000,000)	6,000,000	1,000,000
	62,441	-	-	62,441	-
Total before Premium and Deceased Interest	<u>16,105,744</u>	<u>-</u>	<u>(1,711,082)</u>	<u>14,394,662</u>	<u>1,730,530</u>
Bond Refunding Premium and Deceased Interest	(584,814)	-	84,623	(500,191)	(84,623)
Total	<u>\$ 15,520,930</u>	<u>\$ -</u>	<u>\$ (1,626,459)</u>	<u>\$ 13,894,471</u>	<u>\$ 1,645,907</u>

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

NOTES TO THE BASIC FINANCIAL STATEMENTS

For the Years Ended December 31, 2014 and 2013

5. LONG TERM OBLIGATIONS (continued)

Long-term obligations at December 31, 2013 consist of:

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

As of December 31, 2014, the maturities of the principal amount of long-term debt for the five years ending:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>
2015	\$ 1,792,971	\$ 536,034
2016	1,766,173	488,754
2017	1,724,177	436,206
2018	1,753,563	382,520
2019	1,795,357	322,964
2020-2024	2,984,846	990,971
2025-2029	2,263,805	443,628
2030	300,000	14,250
Total	<u>\$ 14,380,892</u>	<u>\$ 3,615,327</u>
Bond Refunding and Defeased Interest	(500,191)	-
Bond Issue Premium	13,770	-
Total	<u>\$ 13,894,471</u>	<u>\$ 3,615,327</u>

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

NOTES TO THE BASIC FINANCIAL STATEMENTS

For the Years Ended December 31, 2014 and 2013

5. LONG TERM OBLIGATIONS (continued)

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 during 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%.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS

For the Years Ended December 31, 2014 and 2013

5. LONG TERM OBLIGATIONS (continued)

During 2013, \$7,000,000 of Waterworks System Revenue Improvement Bonds, Series 2013 was issued. The District has pledged water customer revenues, net of specific operating expenses, to repay the waterworks revenue improvement bonds. Proceeds from the bonds (a) refunded the 2003 Revenue Bond Note, (b) fund a reserve, and (c) pay costs of issuance. The bonds are payable through 2020. The bonds mature at varying amounts and require interest payments between .85% and 2.50%.

The 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 Elkon Roads Water Improvement Project. Payments are due annually if the property converts from agricultural usage. The unpaid balance is due not later than 2015.

6. ASSESSMENTS RECEIVABLE

Assessment accounts receivable are from completed construction projects and the issuance of final assessments to residents to cover those costs. The receivables are collected through property tax billing. Included in the balances at December 31, 2014 and December 31, 2013 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, 2014 and December 31, 2013 are as follows:

December 31, 2014	Total Assessed	Prepaid Assessments	County Auditor and Deferred Assessments Paid	% Collected
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%

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS

For the Years Ended December 31, 2014 and 2013

6. ASSESSMENTS RECEIVABLE (continued)

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

<u>Collection Year</u>	<u>Total Assessments Levied</u>	<u>Current Assessments Collected</u>	<u>% of Total Collections to Assessments Levied</u>	<u>Delinquent Assessments Collected*</u>	<u>Total Collections as a % of Current Assessments Levied</u>
2014	\$ 582,601	\$ 523,410	90%	\$ 43,477	97%
2013	572,208	541,412	95%	43,370	102%
2012	572,208	509,797	89%	38,912	96%
Total	<u>\$ 1,727,017</u>	<u>\$ 1,574,619</u>	91%	<u>\$ 125,759</u>	98%

* Collected delinquent assessments include penalty and interest

7. DEFINED BENEFIT RETIREMENT PLAN

Ohio Public Employees Retirement System (OPERS) 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 contributions to provide a formula retirement benefit similar in nature to, but less than, the Traditional Pension Plan benefit. Member contributions, the investment of which is self-directed by the members, accumulate retirement assets in a manner similar to the Member-Directed Plan.

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 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>, by writing to OPERS, 277 East Town Street, Columbus, OH 43215-4642, or by calling 614-222-5601 or 800-222-7377.

The Ohio Revised Code provides statutory authority for member and employer contributions. For 2014, member and employer contribution rates were consistent across all three plans.

The 2014 member contribution rates were 10.00% of earnable salary for members in state and local classifications. The 2014 employer contribution rate for state and local employers was 14.00% of earnable salary. The District's required contributions for pension obligations to the Traditional Pension Plan for the years ended December 31, 2014, 2013, and 2012 were \$288,953, \$290,598 and \$289,949, respectively; 100% has been contributed for 2014, 2013 and 2012.

In June 2012, the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 68, Accounting and Financial Reporting for Pensions. This accounting standard replaces GASB Statement 27, and it is effective for employer fiscal years beginning after June 15, 2014. OPERS recommends employers begin a dialog with their external auditors to determine the impact this standard will have on employer financial statements.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS

For the Years Ended December 31, 2014 and 2013

8. 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.

OPERS maintains a cost-sharing multiple-employer defined benefit post-employment health care plan, which includes a medical plan, prescription drug program and Medicare Part B premium reimbursement, to qualifying benefit recipients 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.

A. Plan Description (continued)

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 require, OPERS to provide OPEB benefits to its eligible benefit recipients. Authority to establish and amend health care coverage 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>, by writing to 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-retirement health care through their contributions to OPERS. A portion of each employer's contribution to OPERS is set aside for the funding of post-retirement health care.

Employer contribution rates are expressed as a percentage of the earnable salary of active members. In 2014, state and local employers contributed at a rate of 14.00% of earnable salary and public safety and law enforcement employers contributed at 18.10%. These are the maximum employer contribution rates permitted by the Ohio Revised Code. Active member contributions do not fund the OPEB Plan.

OPERS' Post-employment Health Care Plan was established under, and is administered in accordance with, Internal Revenue Code section 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. The portion of employer contributions allocated to health care for members in the Traditional Pension Plan and Combined Plan was 2.0% during calendar year 2014. Effective January 1, 2015, the portion of employer contributions 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 provided. Payment amounts vary depending on the number of covered dependents and the coverage selected.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS

For the Years Ended December 31, 2014 and 2013

8. POST EMPLOYMENT BENEFITS (continued)

C. Information from employer's records

The total employer contribution rates stated in Section B, above, are the statutorily required contribution rates for OPERS. The District's contributions that were used to fund post-employment benefits were \$132,072 for 2014, \$90,476 for 2013 and \$83,927 for 2012.

D. OPERS Board of Trustees Adopt Changes to the Health Care Plan

Changes to the health care plan were adopted by the OPERS Board of Trustees on September 19, 2012, with a transition plan commencing January 1, 2014. With the 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.

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 2014 and 2013, 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.



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

June 26, 2015

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, 2014 and 2013, 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 26, 2015.

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 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. 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. Therefore, unidentified material weaknesses or significant deficiencies may exist. Given these limitations, we did not identify any deficiencies in internal control that we consider material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of audit findings that we consider significant deficiencies in internal control. We consider findings 2014-001 and 2014-002 to be significant deficiencies.

... "bringing more to the table"

Tax - Accounting - Audit - Review - Compilation - Agreed Upon Procedure - Consultation - Bookkeeping - Payroll - Litigation Support
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Compliance and Other Matters

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

We did note certain matters not requiring inclusion in this report that we reported to the District's management in a separate letter dated June 26, 2015.

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**

**SCHEDULE OF AUDIT FINDINGS
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)
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FINDING NUMBER 2014-001

Significant Deficiency

Timecards

During our testing of payroll disbursements, we noted the District utilized an electronic time clock and punch timecards to track its employees hours worked. For one pay period in December we noted timecards had clock out times manually written in, or had the electronic time scratched out and replaced with a manually written in time. During our scan of other timecards during the year, we noted no other manual adjustments. This practice could result in employees' being compensated for hours not worked and a subsequent misuse of District funds.

We recommend that the District follow its policy of using electronic time clock and punch timecards to track employee hours worked. When necessary to manually enter time on a timecard, the entry should be accompanied by the signatures of the employee and supervisor, as well as an explanation for the change.

Management's Response – Supervisors are required to initial any hand written changes or notes on individual time cards. The date in question was the District Christmas Party and staff were allowed to leave early at the end of the event. Time cards should have been explained and initialed by the supervisors. This policy will be enforced in the future.

FINDING NUMBER 2014-002

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 2014, 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. This resulted in the Human Resource Director running payroll checks on December 31, 2014 for the pay period ending January 2, 2015. The District was able to correct the date of the payroll in the system to match the check dates with the assistance of its software company. The District reissued its W2s to include this pay period's income, then had to manipulate withholdings so the amounts withheld from the payroll checks matched the amounts on employee pay stubs due to the change in withholding requirements for 2015. This lack of supervisory review could allow similar events to occur in the future.

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 – Weekly payroll is maintained in our financial database and is entered by one of three (3) trained individuals, usually the H.R. Director. Prior to issuance of checks or direct deposit vouchers, payroll reports (Check Register, Withholding, Posted Transactions and Posted Checks) are forwarded to the Finance Manager as previously directed by Perry & Associates. We believe this process meets the "checks and balances" protection for the District.



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
MAY 19, 2016**