

SCIOTO COUNTY REGIONAL WATER DISTRICT #1
SCIOTO COUNTY
Regular Audit
For the Year Ended December 31, 2009

Perry & Associates
Certified Public Accountants, A.C.



Mary Taylor, CPA
Auditor of State

Board of Trustees
Scioto County Regional Water District #1
P. O. Box 310
326 Robert Lucas Road
Lucasville, Ohio 45648

We have reviewed the *Independent Accountants' Report* of the Scioto County Regional Water District #1, Scioto County, prepared by Perry & Associates, Certified Public Accountants, A.C., for the audit period January 1, 2009 through December 31, 2009. 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 Scioto County Regional Water District #1 is responsible for compliance with these laws and regulations.

Mary Taylor

Mary Taylor, CPA
Auditor of State

June 16, 2010

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**SCIOTO COUNTY REGIONAL WATER DISTRICT #1
SCIOTO COUNTY**

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Perry & Associates
Certified Public Accountants, A.C.

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

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

INDEPENDENT ACCOUNTANTS' REPORT

May 28, 2010

Board of Trustees
Scioto County Regional Water District #1
PO Box 310
326 Robert Lucas Road
Lucasville, Ohio 45648

To the Board of Trustees:

We have audited the accompanying financial statements of the business-type activities of the **Scioto County Regional Water District #1, Scioto County** (the District), as of and for the year ended December 31, 2009, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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 District, as of December 31, 2009, and the respective changes in financial position and cash flows thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 28, 2010 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. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion of the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Scioto County Regional Water District #1
Independent Accountants' Report
Page 2

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information accounting principles generally accepted in the United States of America requires. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.

Respectfully Submitted,

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

Perry and Associates
Certified Public Accountants, A.C.

**SCIOTO COUNTY REGIONAL WATER DISTRICT #1
SCIOTO COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2009
(UNAUDITED)**

Our discussion and analysis of the Scioto County Regional Water District #1's (the District's) financial performance provides an overview of the District's financial activities for the year ended December 31, 2009. Please read it in conjunction with the District's basic financial statements, which begin immediately following this analysis. This annual financial report consists of two parts – Management's Discussion and Analysis (this section) and the Basic Financial Statements and Notes.

In June 1999, the Governmental Accounting Standards Board (GASB) issued Statement No. 34, Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments. GASB No. 34 established financial reporting standards for state and local governments, including cities, villages and special purpose governments such as the Scioto County Regional Water District #1. GASB No. 34 required the following changes to the District's financial statements:

1. The *Statement of Net Assets* presents information on all of the District's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the District is improving or deteriorating. The net assets section is displayed in three categories: 1) Invested in Capital Assets, net of related debt, 2) Restricted, and 3) Unrestricted.
2. The *Statement of Revenues, Expenses, and Changes in Net Assets* presents information showing how the District's net assets changed during the most recent fiscal year. This statement measures the success of the District's operations over the past year and can be used to determine the District's creditworthiness.
3. The *Statement of Cash Flows* now includes a summary of the cash flows from operations and investments during the reporting period. As in the past, the *Statement of Cash Flows* continues to reconcile the reasons why cash from operating activities differs from operating income.

Overview of the Basic Financial Statements

The District operates as a utility enterprise and presents its financial statements using the economic resources measurement focus and the full accrual basis of accounting. As an enterprise fund, the District's basic financial statements include four components:

- *Statement of Net Assets*
- *Statement of Revenues, Expenses, and Changes in Net Assets*
- *Statement of Cash Flows*
- *Notes to the Financial Statements*

The *Statement of Net Assets* includes all of the District's assets and liabilities, with the difference between the two reported as net assets. Net assets are displayed in three categories:

- Invested in Capital Assets, Net of Related Debt
- Restricted
- Unrestricted

The *Statement of Net Assets* provides the basis for evaluating the capital structure of the District and assessing its liquidity and financial flexibility.

The *Statement of Revenue, Expenses, and Changes in Net Assets* presents information which shows how the District's net assets changed during the year. All of the current year's revenues and expenses are recorded when the underlying transaction occurs, regardless of the timing of the related cash flows. The *Statement of Revenues, Expenses, and Changes in Net Assets* measures the success of the District's operations over the past year and determines whether the District has recovered its costs through water sales, user fees and other charges.

**SCIOTO COUNTY REGIONAL WATER DISTRICT #1
SCIOTO COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2009
(UNAUDITED)**

Overview of the Basic Financial Statements (Continued)

The Statement of Cash Flows provides information regarding the District's cash receipts and cash disbursements during the year. This statement reports cash activity in four categories:

- Operating
- Non-capital Financing
- Capital Financing
- Investing

This statement differs from the *Statement of Revenues, Expenses, and Changes in Net Assets* in that it accounts only for transactions that result in cash receipts and cash disbursements.

The *Notes to the Financial Statements* provide a description of the accounting policies used to prepare the financial statements and present material disclosures required by generally accepted accounting principles that are not otherwise present in the financial statements.

Financial Highlights

During the year ending December 31, 2009, the District's operating revenues were over \$3.86 million. Operating expenses were \$3.59 million resulting in \$269,090 of income from operations. Revenues decreased slightly but remained stable when compared with last year. No water or tap rates were increased during 2009, and production and usage remained stable.

During 2009, the sale of bulk water was a significant source of revenue totaling \$750,493. The reduction in bulk water sales can be attributed to Southern Ohio Correctional Facility (SOCF). We are customarily a back-up source for this facility and do not necessarily see significant revenues from this user. However, during 2008 SOCF was responsible for approximately \$145,745 in water sales. In 2009, there were no water sales to SOCF.

Several projects in the plant and distribution departments were completed in 2009. Plant projects included the Power Source project and the Well Field Generator project. Distribution projects included completion of the Cross Country Upgrade project and various other line replacement projects throughout the system.

We are continuing the GPS Project completed phase 2 and is progressing through phase 3 of a four phase project. All existing plans of construction and installations of the plant, well field, and distribution systems have been digitized. The database design which is the foundation for which to build a complete mapping system and water model has been completed, and GPS locations for all meters, pump stations, and tanks have been identified.

Due to a pending highway construction project through our district, we have made an extensive effort to obtain property easements on locations where the project may affect our lines. These easements, along with a property of 126 acres of land adjacent to our well fields, have increased our Land assets.

Financial Analysis of the District

Net Assets - The District's net assets grew between fiscal years 2008 and 2009, increasing from the restated amount of \$8,966,917 to \$9,335,408. The \$368,491 increase in net assets is due to the upgrades in our plant and in our distribution system.

**SCIOTO COUNTY REGIONAL WATER DISTRICT #1
SCIOTO COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2009
(UNAUDITED)**

Financial Analysis of the District (Continued)

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consist 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 assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted or through external restrictions imposed by creditors, grantors or laws, or regulations of other governments. Scioto County Regional Water District #1 applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

**Table 1
Statement of Net Assets**

	2009	2008
Assets		
Current Assets	\$ 2,477,472	\$ 2,617,918
Non-Current Assets	8,738,011	8,199,687
Total Assets	<u>11,215,483</u>	<u>10,817,605</u>
Liabilities		
Current Liabilities	379,897	370,526
Non-Current Liabilities	1,500,178	1,480,162
Total Liabilities	<u>1,880,075</u>	<u>1,850,688</u>
Net Assets		
Invested in Capital Assets, Net of Debt	6,663,463	6,161,044
Restricted for Debt Service	382,965	378,685
Unrestricted	2,288,980	2,427,188
Total Net Assets	<u>\$ 9,335,408</u>	<u>\$ 8,966,917*</u>

* See Prior Period Restatement at Note 9

Change in Net Assets – The District's income from operations was \$269,090; operating expenses reflect an increase of \$390,512. A portion of this increase can be attributed to the rising cost of fuel, chemicals, and employee costs. Across-the-board increases were given in hourly and salary wage rates.

In fiscal year 2009, 98% of the District's operating revenues came from water and tap sales with \$750,493 coming from bulk customers. These revenues remained fairly stable with no rate increases during 2009.

**SCIOTO COUNTY REGIONAL WATER DISTRICT #1
SCIOTO COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2009
(UNAUDITED)**

Financial Analysis of the District (Continued)

**Table 2
Changes in Net Assets**

	2009	2008	% Change
Total Operating Revenues	\$ 3,860,180	\$ 3,645,618	6%
Total Operating Expenses	3,591,090	3,200,578	12%
Total Operating Revenues	269,090	445,040	-40%
Gain/Loss on Sale of Asset	11,408	-	100%
Interest Income	2,260	32,192	-93%
Interest Expense	(69,108)	(78,812)	-12%
Total Non-Operating Revenues/Expenses	(55,440)	(46,620)	19%
Income before Contributions	213,650	398,420	-46%
Capital Contributions	154,841	739,807	-79%
Changes in Net Assets	368,491	1,138,227	-68%
Net Assets at Beginning of Year	8,966,917	7,828,690	15%
Net Assets at End of Year	<u>\$ 9,335,408</u>	<u>\$ 8,966,917*</u>	4%

* See Prior Period Restatement at Note 9

The District's interest income decreased by \$29,932 for a total Interest Income \$2,260 due to lower rates of return. With the economy and banking industry in turmoil, this number is expected to remain low throughout 2010. The non-operating expenses decreased by 12% as a result of lower interest payments on debt service. The debt acquired with Ohio Public Works Commission has been interest free, and the lower principal balance on the bonds payable has decreased the interest costs associated with this debt.

**SCIOTO COUNTY REGIONAL WATER DISTRICT #1
SCIOTO COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2009
(UNAUDITED)**

CAPITAL ASSETS

As of December 31, 2009, the District had invested approximately \$8.3 million. This amount represents a net increase (including additions and deductions) of \$387,055 over the prior year. The greatest increases to capital assets were additions and replacement of the District's distribution lines. Construction in progress decreased as the Cross Country project was completed. More detailed information about the District's capital assets is presented in Note 8 to the basic financial statements.

Table 3 summarizes the changes in Capital Assets.

**Table 3
Capital Assets**

	2009	2008
Land	\$ 684,014	\$ 282,404
Construction in Progress	748,385	2,318,474
Source of Supply	1,253,262	1,204,529
Water Treatment Plant	3,960,806	3,801,365
Distribution System	10,771,210	8,865,878
Transportation Equipment	646,788	652,975
Office Furniture & Equipment	224,672	224,672
Other Equipment	1,228,743	1,203,071
Less: Accumulated Depreciation	<u>(11,170,397)</u>	<u>(10,592,940)</u>
Total Capital Assets	<u>\$ 8,347,483</u>	<u>\$ 7,960,428</u>

Budget Analysis

The District was short of achieving the budgeted revenue for 2009 by \$28,812. Total receipts collected were over \$4 million. The District's expenses remained slightly under budget by approximately \$37,433. This does not include depreciation expense of \$647,709. Excluding depreciation, the District expenses totaled \$3,012,489.

Debt Administration

At December 31, 2009, the District had \$1.190 million in bonds payable. Additional funds of \$250,000 were borrowed from OPWC during 2009, the total OPWC debt is \$486,894. More detailed information about the District's long-term debt is presented in Note 3 to the Basic Financial Statements.

Economic Factors

The District's financial condition remains stable as the District proceeds through another year of system upgrades and increased operational expenses. The local economic conditions continue to challenge the district with customer delinquency and water theft. By implementing a consistent collection approach the District has been able to keep customer delinquency at a reasonable level.

Contacting the District's Financial Management

This financial report is designed to provide our customers, investors, and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the financial resources it manages. If you have questions about this report or need additional financial information, contact Kathie Martin, Treasurer, at Scioto County Regional Water District #1 located at 326 Robert Lucas Road, Lucasville Ohio 45648, (740) 259-2301.

SCIOTO COUNTY REGIONAL WATER DISTRICT #1
SCIOTO COUNTY
STATEMENT OF NET ASSETS
AS OF DECEMBER 31, 2009

	2009
ASSETS:	
Current Assets:	
Cash and Cash Equivalents	\$ 1,745,702
Accounts Receivable	576,224
Deposits	3,150
Prepaid Expenses	31,886
Inventories	120,510
Total Current Assets	2,477,472
Noncurrent Assets:	
Deferred Charges:	
Deferred Charges	7,563
Restricted Assets:	
Cash and Cash Equivalents	382,965
Capital Assets:	
Non-Depreciable Capital Assets	1,432,399
Depreciable Capital Assets, Net of Depreciation	6,915,084
Total Capital Assets	8,347,483
Total Noncurrent Assets	8,738,011
TOTAL ASSETS	\$ 11,215,483
LIABILITIES AND EQUITY:	
Current Liabilities:	
Accounts Payable	\$ 78,007
Employee Withholding Payable	288
Unset Water Taps Payable	27,000
Compensated Absences Payable	42,734
Customer Deposits	1,925
Current Revenue Bonds Payable	200,000
Current OPWC Payable	27,553
Current Capital Lease Payable	2,390
Total Current Liabilities	379,897
Long-Term Liabilities:	
Long Term Compensated Absences Payable	46,101
Capital Lease Payable	4,736
OPWC Loan Payable	459,341
Revenue Bonds Payable	990,000
Total Long-Term Liabilities	1,500,178
TOTAL LIABILITIES	1,880,075
Net Assets:	
Invested in Capital Assets, Net of Related Debt	6,663,463
Restricted Net Assets for:	
Debt Service	382,965
Unrestricted Net Assets	2,288,980
Total Net Assets	9,335,408
TOTAL LIABILITIES AND NET ASSETS	\$ 11,215,483

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

SCIOTO COUNTY REGIONAL WATER DISTRICT #1
SCIOTO COUNTY
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2009

	2009
Operating Revenues:	
Water Sales	\$ 3,768,941
Water Tap Sales	34,650
Lab Test Fees	3,792
Miscellaneous	52,797
Total Operating Revenues	3,860,180
Operating Expenses:	
Water Taps and New Line Extensions	9,705
Supply and Treatment	1,204,799
Distribution	1,043,856
Administration, Billing, and Office	671,588
Board Expenses	13,433
Depreciation Expense	647,709
Total Operating Expenses	3,591,090
Operating Income	269,090
Non-Operating Revenues/(Expenses):	
Gain on Sale of Asset	11,408
Interest Income	2,260
Interest Expense	(69,108)
Total Non-Operating Revenues/(Expenses)	(55,440)
Income before Contributions	213,650
Capital Contributions	
Capital Contributions from Other Governments	736
Capital Contributions from Grant and OPWC Funds	154,105
Total Capital Contributions	154,841
Change in Net Assets	368,491
Net Assets - January 1 (Restated - See Note 8)	8,966,917
Net Assets - December 31	\$ 9,335,408

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

**SCIOTO COUNTY REGIONAL WATER DISTRICT #1
SCIOTO COUNTY
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2009**

	<u>2009</u>
Cash Flows from Operating Activities:	
Receipts from Customers	\$ 3,813,588
Receipts from Others	7,653
Payments to Suppliers and Vendors	(1,570,898)
Payments to Employees	(1,375,737)
	<hr/>
Net Cash Provided by (Used by) Operating Activities	874,606
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Cash Flows from Capital and Related Financing Activities:	
Principal on Bond	(190,000)
Interest on Bond	(69,108)
OPWC Principal	(21,303)
Capital Lease Principal	(2,390)
Proceeds from Grant Funds	154,105
Proceeds from Contributed Revenue	736
Payments for Capital Acquisitions	(924,988)
	<hr/>
Net Cash Provided by (Used by) Capital and Related Financing Activities	(1,052,948)
	<hr/>
Cash Flows from Investing Activities:	
Interest Earned	2,260
	<hr/>
Net Cash Provided by (Used by) Investing Activities	2,260
	<hr/>
Net Increase/(Decrease) in Cash and Cash Equivalents	(176,082)
Cash and Cash Equivalents - January 1	2,304,788
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Cash and Cash Equivalents - December 31	<u>2,128,706</u>
	<hr/>
Cash Flows from Operating Activities:	
Operating Income	269,090
	<hr/>
Adjustments to Reconcile Net Income to Net Cash from Operating Activities:	
Depreciation Expense	647,709
	<hr/>
<i>Change in Assets</i>	
(Increase) Decrease in Accounts Receivable	(38,939)
(Increase) Decrease in Prepaid Items	(13,752)
(Increase) Decrease in Materials and Supplies Inventory	11,736
(Increase) Decrease in Deferred Charges	4,682
(Increase) Decrease in Deposits	1,000
<i>Change in Liabilities</i>	
Increase (Decrease) in Accounts Payable	(12,747)
Increase (Decrease) in Unset Water Taps Payable	2,500
Increase (Decrease) in Employee's Withholding Payable	61
Increase (Decrease) in Current Portion of Compensated Absences Payable	3,266
	<hr/>
Total Adjustments	605,516
	<hr/>
Net Cash Provided by (Used by) Operating Activities	<u>\$ 874,606</u>

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

**SCIOTO COUNTY REGIONAL WATER DISTRICT #1
SCIOTO COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2009**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. DESCRIPTION OF THE ENTITY

The Scioto County Regional Water District #1 is a water district organized under the provisions of Section 6119 of the Ohio Revised Code by the Common Pleas Court of Scioto County in August of 1966. The District operates under the direction of a seven member board of trustees. An appointed staff consisting of a superintendent, a plant superintendent, a distribution superintendent, and an office manager are responsible for fiscal control of the resources of the District. The District was established to provide an adequate and uncontaminated water supply for the consumption of the water district users, for industrial and business use, and for fire protection. The District serves all or parts of the following political subdivisions:

Bloom Township
Clay Township
Harrison Township
Jefferson Township
Madison Township
Porter Township
Valley Township
Vernon Township
South Webster Village

B. BASIS OF ACCOUNTING

The District, as an enterprise fund, accounts for its operations in a manner similar to private business enterprises. The intent of the governing body is that the costs (including depreciation and amortization) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges. The focus of enterprise fund measurement is based upon determination of operating income, changes in net assets, financial position, and cash flows. Under the provisions of Governmental Accounting Standards Board (GASB) Pronouncement No. 20, the District has elected to follow all GASB pronouncements and Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, except for those that conflict with GASB pronouncements. The District's operating revenues are those that result from providing services and producing and delivering goods, and include all other revenues that do not result from transactions defined by GASB Statement No. 9 as capital and related financing, non-capital financing, or investing activities.

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

For financial statement presentation purposes, the District utilizes the accrual basis of accounting. Under this method of accounting, revenues are recognized when they are earned. Unbilled water utility service receivables are recorded at year end. Expenses are recognized under the accrual basis of accounting when the liability is incurred.

**SCIOTO COUNTY REGIONAL WATER DISTRICT #1
SCIOTO COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2009**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. CAPITAL ASSETS

Capital assets acquired or constructed for the general use of the District in providing service are recorded at cost. Donated assets are recorded at their estimated fair market value at the time received. Capital assets are defined as assets with an initial, individual cost of more than \$1,000 and an estimated useful life in excess of three years. Depreciation of capital assets of the District is calculated utilizing the straight line method. All assets reported in the financial statements are at cost less accumulated depreciation.

The estimated useful lives by major capital asset class are as follows:

Supply Facilities, Wells & Pumps	8 years
Transportation Equipment	5 years
Water Treatment Plant	40 years
Other Equipment	5 years
Distribution System & Lines	40 years
Furniture and Other Equipment	10 years

D. INVENTORY

The District maintains material inventory for its proprietary fund. Inventory is valued at cost and the District uses the first-in, first-out (FIFO) flow assumption in determining cost.

E. COMPENSATED ABSENCES

Accumulated vacation leave and accumulated compensatory time are recorded as an expense and liability of the District as the benefits accrue to the employees. In accordance with the provisions of Governmental Accounting Standards Statement No.16, Accounting for Compensated Absences, a liability is recorded for vested sick pay benefits which have been defined by District policy as available to those employees with ten years or more of service up to a maximum of four-hundred-eighty hours.

F. PENSIONS

The provision for pension cost is recorded when the related payroll is accrued and the obligation is incurred.

G. CASH & CASH EQUIVALENTS

To improve cash management, cash received by the District is pooled. The Proprietary fund's interest in the pool is presented as "cash and cash equivalents" on the balance sheet.

During fiscal year 2009, investments were limited to *U.S. Treasury Obligations and Repurchase Agreements*.

Except for nonparticipating investment contracts, investments are reported at fair value which is based on quoted market prices. Nonparticipating investment contracts such as repurchase agreements and nonnegotiable certificates of deposit are reported at cost.

The District's cash and cash equivalents are considered to be cash on hand, deposits and short term investments (including restricted assets) with maturities of three months or less from the date of acquisition.

**SCIOTO COUNTY REGIONAL WATER DISTRICT #1
SCIOTO COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2009**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

H. FUND ACCOUNTING

The District maintains its accounting records in accordance with the principles of "fund" accounting. Fund accounting is a concept developed to meet the needs of government entities in which legal or other restraints require the recording of specific revenues and expenses. The transactions of each fund are reflected in a self-balancing group of accounts, an accounting entity which stands separate from the activities reported in other funds. The restriction associated with each type of fund is as follows:

PROPRIETARY FUND

The proprietary fund is used to account for the District's ongoing activities that are similar to those found in the private sector. The following is the District's proprietary fund type:

ENTERPRISE FUND

This fund is used to account for operations (a) that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs of providing goods and services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purpose.

I. DEFERRED CHARGES

Deferred charges are non-regularly recurring, non-capital costs of operations that benefit future periods. These costs include those incurred in connection with deferred hydrology, hydrology study, and long and short term sludge plan. Deferred charges expense for 2009 was \$4,682 leaving a balance of \$7,563.

J. PREPAID EXPENSES

Charges entered in the accounts for benefits not yet received. Prepaid expenses differ from deferred charges in that they are spread over a shorter period of time than deferred charges and are regularly recurring costs of operation. Prepaid expenses for 2009 were \$31,886.

K. ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

L. NET ASSETS

Net assets represent the differences between assets and liabilities. Net Assets Invested in Capital Assets, Net of Related Debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Restricted net assets consist of monies and other resources which are restricted to satisfy debt service requirements as specified in debt agreements.

**SCIOTO COUNTY REGIONAL WATER DISTRICT #1
SCIOTO COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2009**

NOTE 2 – DEPOSITS 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 can be withdrawn on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

Inactive deposits are public deposits the Board has identified as not required for use within the current two year period of designation of depositories. Inactive deposits must either be evidenced 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.

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 deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit or by savings accounts, including passbook accounts.

Protection of the District's deposits is provided by the Federal Deposit Insurance Corporation (FDIC), 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 money deposited with the institution.

State statute permits monies to be deposited or invested in the following securities:

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the federal national mortgage association, federal home loan bank, federal farm credit bank, federal home loan mortgage corporation, government national mortgage association, and student loan marketing association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bond and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) 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 (STAROhio);
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred and eighty days in an amount not to exceed twenty-five percent of the interim moneys available for investment at any one time; and,

**SCIOTO COUNTY REGIONAL WATER DISTRICT #1
SCIOTO COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2009**

NOTE 2 – DEPOSITS AND INVESTMENTS (Continued)

8. Under limited circumstances, debt interests rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

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 Treasurer or qualified trustee or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

Cash on Hand - At year end, the District had \$400 in undeposited cash on hand which is included on the balance sheet of the District as part of "cash and cash equivalents".

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 At year end, the carrying amount of the District's deposits was \$369,357 and the bank balance was \$462,336. Of the bank balance at years end 2009, \$250,000 was covered by federal depository insurance. The remaining balances was covered by a 105% public depository pool, which was collateralized with securities held by the pledging institution trust department but not in the District's name. Although all State statutory requirements for the deposit of money had been followed, non-compliance with federal requirements could potentially subject the District to a successful claim by the FDIC.

Investments The District's investments are required to be categorized to give an indication of the level of risk assumed by the District at year end. Category 1 includes investments that are insured or registered or for which the securities are held by the District or its agent in the District's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the District's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the District's name.

	Category 1	Carrying Amount	Fair Value
Repurchase Agreements	100,000	100,000	100,000
U.S. Treasury Obligations	1,375,945	1,375,945	1,375,945
Reserve Bond Trust	282,965	282,965	282,965
Total Investments		<u>1,758,910</u>	<u>1,758,910</u>

The classification of cash and cash equivalents, and investments on the basic financial statements is based on criteria set forth in GASB Statement No. 9, "Reporting Cash Flows of Proprietary and Non-Expendable Trust Funds and Governmental Entities that use Proprietary Fund Accounting."

**SCIOTO COUNTY REGIONAL WATER DISTRICT #1
SCIOTO COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2009**

NOTE 3 - DEBT OBLIGATIONS

A schedule of changes in bonds and other long-term obligations of the District during 2009 follows:

	Amount Outstanding 12/31/08	Additions	Deletions	Amount Outstanding 12/31/09	Amounts Due in One Year
Water System Revenue Refunding & Improvement Bonds (4.25%)	\$ 1,380,000	\$ -	\$ 190,000	\$ 1,190,000	\$ 200,000
OPWC Loans 1999- 2009 (0.00%)	258,197	250,000	21,303	486,894	27,553
Xerox Lease	9,516	-	2,390	7,126	2,390
Compensated Absences	85,569	12,401	9,135	88,835	42,734
Total	\$ 1,647,722	\$ 250,001	\$ 213,698	\$ 1,684,025	\$ 272,677

The revenue refunding and improvement bonds are special obligations of the District, payable solely from the pledged revenues of its water system and the revenue fund created under the indenture. The bonds were issued to fund capital expenditures to improve the system at a rate of 4.25%. Payments are made yearly.

The OPWC loans were issued for the purpose of financing the Fairgrounds Road waterline, Clarktown Water Tank, Number 5 Pump Station, Northwest Main Supply Line, and the Cross Country Water Line projects. Revenue of the District has been pledged to repay this debt. Payments of \$16,902 with 0% interest are made semi-annually.

Principal and interest requirements to retire the District's long-term obligations outstanding at December 31, 2009 are as follows:

Year Ending December 31	Improvement Bonds		OPWC Loans		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2010	\$ 200,000	\$ 58,315	\$ 27,553	\$ -	\$ 227,553	\$ 58,315
2011	230,000	46,812	33,803	-	263,803	46,812
2012	240,000	34,240	33,803	-	273,803	34,240
2013	255,000	20,999	33,803	-	288,803	20,999
2014	265,000	7,089	33,803	-	298,803	7,089
2015-2019	-	-	166,001	-	166,001	-
2020-2024	-	-	99,464	-	99,464	-
2025-2029	-	-	58,664	-	58,664	-
	\$1,190,000	\$ 167,455	\$ 486,894	\$ -	\$ 1,676,894	\$ 167,455

**SCIOTO COUNTY REGIONAL WATER DISTRICT #1
SCIOTO COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2009**

NOTE 3 - DEBT OBLIGATIONS (Continued)

The District entered into an agreement to lease a copier during fiscal year 2007. The terms of the agreement provide options to purchase the equipment. The lease meets the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13 "Accounting for Leases", which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. Capital lease payments have been reclassified and are reflected as debt service expenditures in the basic financial statements for the governmental funds. These expenditures are reflected as program/function expenditures on a budgetary basis.

The capital asset acquired by the lease has been capitalized in the statement of net assets for governmental activities in the amount of \$11,949 which is equal to the present value of the minimum lease payments at the time of acquisition. A corresponding liability was recorded on the statement of net assets for governmental activities. Principal payments in the fiscal year totaled \$2,390

The following is a schedule of the future long-term minimum lease payments required under the capital lease and the present value of the minimum lease payments as of December 31, 2009:

Year Ending <u>December 31</u>	<u>Xerox Lease</u>
2010	\$ 2,390
2011	\$ 2,390
2012	\$ 2,346
Total Lease Payments	<u>\$ 7,126</u>

NOTE 4 - RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. For fiscal year 2009, the district contracted with Ohio Government Risk Management for real property, building contents, and vehicle insurance coverage.

Coverage provided by the program is as follows:

General Liability	\$5,000,000
Public Officials	\$5,000,000
Automobile	\$5,000,000
Faithful Performance & Employee Bond	\$ 100,000

**SCIOTO COUNTY REGIONAL WATER DISTRICT #1
SCIOTO COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2009**

NOTE 4 - RISK MANAGEMENT (Continued)

Vehicle policies include liability coverage for bodily injury and property damage. Real property and building contents are 80% insured.

Health insurance was provided by a private carrier, Federated Insurance, for the year.

Workers' compensation benefits are provided through the State Bureau of Workers' Compensation. The District pays all elected officials' bonds by statute.

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

NOTE 5 - PENSION PLAN

Ohio Public Employees Retirement System

The District participates in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans. The traditional plan is a cost-sharing, multiple-employer defined benefit pension plan.

The member-directed plan is a defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over 5 years at 20% per year). Under the member directed plan, members accumulate retirement assets equal to the value of the member and vested employer contributions plus any investment earnings.

The combined plan is a cost-sharing, multiple-employer defined benefit pension plan that has elements of both a defined benefit and a defined contribution plan. Under the combined plan, employer contributions are invested by the retirement system to provide a formula retirement benefit similar to the traditional plan benefit. Member contributions, whose investment is self-directed by the member, accumulate retirement assets in a manner similar to the member directed plan.

OPERS provides retirement, disability, survivor and death benefits and annual cost of living adjustments to members of the traditional and combined plans. Members of the member directed plan do not qualify for ancillary benefits. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report that may be obtained by writing to OPERS, 277 East Town Street, Columbus, OH 43215-4642 or by calling (614) 222-6705 or (800) 222-7377.

For the years ended December 31, 2008 and 2009, the members of all three plans, were required to contribute 10 percent of their annual covered salaries. The employer contribution rate for District employers was 14 percent of covered payroll. Authority to establish and amend benefits is provided in Chapter 145 of the Ohio Revised Code.

The District's required contributions for pension obligations to the traditional and combined plans for the years ended December 31, 2009 and 2008 were \$108,548 and \$94,102, respectively. The full amount has been contributed for all years.

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.

**SCIOTO COUNTY REGIONAL WATER DISTRICT #1
SCIOTO COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2009**

NOTE 5 - PENSION PLAN (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.

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 benefits.

Employer contribution rates are expressed as a percentage of the covered payroll of active members. In 2008 and 2009, state and local employers contributed at a rate of 14.00% of covered payroll. The Ohio Revised Code currently limits the employer contribution to a rate not to exceed 14.0% of covered payroll for state and local employer units. 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 Retirement Board determines the portion of the employer contribution rate that will be set aside for funding of post employment health care benefits. For 2008 and 2009, the employer contribution allocated to the health care plan was 7.0% of covered payroll. The OPERS Retirement Board is also authorized to establish rules for the payment of a portion of the health care benefits provided, by the retiree or their surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected.

The portion of employer contributions that were used to fund post-employment benefits for 2009 and 2008 approximated \$54,274 and \$47,051, respectively.

The Health Care Preservation Plan (HCPP) adopted by the OPERS Retirement Board on September 9, 2004, was effective January 1, 2007. Member and employer contribution rates increased as of January 1, 2006, January 1, 2007 and January 1, 2008, which allowed additional funds to be allocated to the health care plan.

NOTE 6 – COMPENSATED ABSENCES

All full-time District employees earn vacation at varying rates based upon length of service. Upon separation from the Water District, the employee (or his estate) is paid for his accumulated unused vacation leave balance. All full-time District employees earn sick leave at the rate of 1.25 days per calendar month of active service. Upon retirement from the District, an employee shall receive monetary compensation for a portion of each day of unused sick leave; the monetary compensation shall be at the hourly rate of the employee at the time of retirement.

District employees who work on holidays and in an occasional overtime status are primarily paid on a current basis. However, in some instances the employees are permitted to accrue compensatory time to be taken as time off or to be paid at a later date. At December 31, 2009, the total vested liability for accumulated unpaid vacation, sick leave and compensatory time recorded was \$88,835.

**SCIOTO COUNTY REGIONAL WATER DISTRICT #1
SCIOTO COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2009**

NOTE 7 –CHANGE IN ACCOUNTING PRINCIPLES

For the year ended December 31, 2008, the District implemented GASB Statement No. 50 “Pension Disclosures – an amendment of GASB Statement No. 25 and No. 27, and GASB Statement No. 45 Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pension”. GASB Statement No. 50 more closely aligns the financial reporting requirement for pensions with those for other postemployment benefits (OPEB) and, in doing so, enhances information disclosed in notes to the financial statements or presented as required supplementary information (RSI) by pension plans and by employers that provide pension benefits. GASB Statement 45 establishes standards for the measurement, recognition, and display of OPEB expense/expenditures and related Liabilities (assets), note disclosures, and, if applicable, required supplementary information (RSI) in the financial reports of state and local governmental employees. The application of these new standards did not require a restatement of prior year balances.

NOTE 8 -CAPITAL ASSETS

A summary of the District’s capital assets as of December 31, 2009, are as follows:

	2008	Additions	Deletions	2009
Capital Assets, Not Being Depreciated				
Land	\$ 282,404	\$ 403,166	\$ (1,556)	\$ 684,014
Construction in Progress	2,318,474	656,757	(2,226,846)	748,385
Total Capital Assets, Not Being Depreciated	<u>2,600,878</u>	<u>1,059,923</u>	<u>(2,228,402)</u>	<u>1,432,399</u>
Capital Assets Being Depreciated				
Source of Supply	1,204,529	88,424	(39,691)	1,253,262
Water Treatment Plant	3,801,365	160,804	(1,363)	3,960,806
Distribution System	8,865,878	1,905,332	-	10,771,210
Transportation Equipment	652,975	47,145	(53,332)	646,788
Office Furniture & Equipment	224,672	-	-	224,672
Other Equipment	1,203,071	60,906	(35,234)	1,228,743
Total Capital Assets Being Depreciated	<u>15,952,490</u>	<u>2,262,611</u>	<u>(129,620)</u>	<u>18,085,481</u>
Less Accumulated Depreciation				
Source of Supply	785,366	51,615	-	836,981
Water Treatment Plant	2,706,992	123,987	-	2,830,979
Distribution System	5,610,236	343,614	-	5,953,850
Transportation Equipment	433,939	63,887	(53,332)	444,494
Office Furniture & Equipment	182,283	8,850	-	191,133
Other Equipment	874,124	55,756	(16,920)	912,960
Less Accumulated Depreciation	<u>10,592,940</u>	<u>647,709</u>	<u>(70,252)</u>	<u>11,170,397</u>
Total Capital Assets Being Depreciated, Net	<u>5,359,550</u>	<u>1,614,902</u>	<u>(59,368)</u>	<u>6,915,084</u>
Total Capital Assets, net	<u>\$ 7,960,428</u>	<u>\$ 2,674,825</u>	<u>\$ (2,287,770)</u>	<u>\$ 8,347,483</u>

**SCIOTO COUNTY REGIONAL WATER DISTRICT #1
SCIOTO COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2009**

NOTE 9 – PRIOR PERIOD RESTATEMENT

For the year ended December 31, 2009 the following prior period adjustments were made to the December 31, 2008 net assets to correct errors in prior periods related to OPWC funding recognition as grant monies instead of debt proceeds, resulting in the following restatement of net assets:

Net Assets at 12/31/2008	Prior Period Adjustments	Restated Net Assets at 1/1/2009
\$ 9,118,588	\$ (151,671)	\$ 8,966,917

Perry & Associates
Certified Public Accountants, A.C.

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

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

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

May 28, 2010

Scioto County Regional Water District #1
PO Box 310
326 Robert Lucas Road
Lucasville, Ohio 45648

To the Board of Trustees:

We have audited the financial statements of the business-type activities of **Scioto County Regional Water District #1, Scioto County, Ohio** (the District) as of and for the year ended December 31, 2009, which collectively comprise the District's basic financial statements and have issued our report thereon dated May 28, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our audit procedures for expressing our opinion on the financial statements, but not to opine on the effectiveness of the District's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the District's internal control over financial reporting.

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 more than a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and timely corrected.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider material weaknesses, as defined above.

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, providing an opinion 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 intend this report solely for the information and use of management and members of the Board. We intend it for no one other than these specified parties.

Respectfully Submitted,

A handwritten signature in black ink that reads "Perry & Associates CPAs A.C." The signature is written in a cursive, flowing style.

Perry and Associates
Certified Public Accountants, A.C.



Mary Taylor, CPA
Auditor of State

REGIONAL WATER DISTRICT #1

SCIOTO 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
JUNE 29, 2010**