

**SCIOTO COUNTY REGIONAL WATER DISTRICT #1
SCIOTO COUNTY
Regular Audit
For the Year Ended December 31, 2012**

Perry & Associates
Certified Public Accountants, A.C.



Dave Yost • Auditor of State

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

We have reviewed the *Independent Auditor's 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, 2012 through December 31, 2012. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Scioto County Regional Water District #1 is responsible for compliance with these laws and regulations.

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

Dave Yost
Auditor of State

June 7, 2013

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

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INDEPENDENT AUDITOR'S REPORT

April 26, 2013

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

To the Board of Directors:

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of the **Scioto County Regional Water District #1**, Scioto County, Ohio (the District), as of and for the year ended December 31, 2012, 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 audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Scioto County Regional Water District #1, Scioto County, Ohio, as of December 31, 2012, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

Other Matters

Change in Accounting Principles

As described in Note 1C, the District adopted the provisions of Governmental Accounting Standards Board Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require this presentation to include *Management's discussion and analysis* listed in the table of contents, to supplement the basic financial statements. Although this information is not part of the basic financial statements, the Governmental Accounting Standards Board considers it essential for placing the basic financial statements in an appropriate operational, economic, or historical context. We applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, consisting of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, to the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not opine or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to opine or provide any other assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 26, 2013, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Respectfully Submitted,



Perry and Associates
Certified Public Accountants, A.C.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2012
(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, 2012. 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 Position* presents information on all of the District's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating. The net position 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 Position* presents information showing how the District's net position 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 Position*
- *Statement of Revenues, Expenses and Changes in Net Position*
- *Statement of Cash Flows*
- *Notes to the Financial Statements*

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

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

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

The *Statement of Revenues, Expenses and Changes in Net Position* presents information which shows how the District's net position 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 Position* 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, 2012
(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 Position* 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, 2012, the District's operating revenues were over \$3.7 million. Operating expenses were approximately \$3.6 million resulting in a \$190,363 gain from operations. Revenues decreased slightly but remained stable when compared with last year. No water or tap rates were increased during 2012, and production and usage decreased slightly.

During 2012, the sale of bulk water was a significant source of revenue totaling \$740,136. We continue to be a back-up source for Southern Ohio Correctional Facility and did not see significant revenues from this user. Usage from other large bulk users increased slightly.

Several projects in the plant and distribution departments were completed in 2012. Plant projects included the Haystack Tank Replacement and the Plant High Service Upgrade. Distribution projects included completion of the Divide Hill Relocation and Haystack Vo-tec Pipe Upgrade and various other line replacement projects throughout the system. We also acquired property at Thomas Hollow and Nesbitt Road for the construction of a pump station in 2013.

We are continuing the GPS Project and have completed most of phase three 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 meters, pump stations, and tanks have been identified.

Due to a pending major highway construction project through our District, we are continuing to prepare for this project with line relocations.

Financial Analysis of the District

Net Position - The District's net position between 2011 and 2012 increased from \$9,550,341 to \$9,645,117. The \$94,776 increase is primarily due to a reduction in operational expenditures.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2012
(UNAUDITED)**

Financial Analysis of the District (Continued)

Net position represents the difference between assets and liabilities. 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 position is reported as restricted when there are limitations imposed on 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 Position**

| | <u>2012</u> | <u>2011</u> |
|---|---------------------|---------------------|
| Assets | | |
| Current Assets | \$ 4,016,622 | \$ 3,908,917 |
| Non-Current Assets | 8,486,087 | 8,616,982 |
| Total Assets | <u>12,502,709</u> | <u>12,525,899</u> |
| Liabilities | | |
| Current Liabilities | 282,810 | 285,475 |
| Non-Current Liabilities | 2,574,782 | 2,690,083 |
| Total Liabilities | <u>2,857,592</u> | <u>2,975,558</u> |
| Net Position | | |
| Invested in Capital Assets, Net of Debt | 5,556,707 | 5,562,886 |
| Restricted for Debt Service | 245,927 | 245,014 |
| Unrestricted | 3,842,483 | 3,742,441 |
| Total Net Position | <u>\$ 9,645,117</u> | <u>\$ 9,550,341</u> |

Change in Net Position – The District’s gain from operations was \$190,363; operating expenses reflect a decrease of \$50,802. An effort to reduce and control expenditures continues as revenue streams remain stagnant.

In 2012, 99% of the District’s operating revenues came from water and tap sales with \$740,136 coming from bulk customers. These revenues continued to increase slightly by \$26,448, indicating a recovery of revenues within the bulk market.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2012
(UNAUDITED)**

Financial Analysis of the District (Continued)

**Table 2
Changes in Net Assets**

| | 2012 | 2011 |
|---|----------------------------|-------------------------|
| Total Operating Revenues | \$ 3,773,921 | \$ 3,791,927 |
| Total Operating Expenses | <u>3,583,558</u> | <u>3,634,360</u> |
| Total Operating Revenues/(Expenses) | 190,363 | 157,567 |
| Gain/Loss on Sale of Asset | 9,494 | 9,354 |
| Interest Income | 785 | 1,171 |
| Interest Expense | <u>(106,602)</u> | <u>(80,365)</u> |
| Total Non-Operating Revenues/(Expenses) | (96,323) | (69,840) |
| Income before Contributions | 94,040 | 87,727 |
| Capital Contributions | <u>736</u> | <u>148,868</u> |
| Change in Net Position | 94,776 | 236,595 |
| Net Position at Beginning of Year | <u>9,550,341</u> | <u>9,313,746</u> |
| Net Position at End of Year | <u><u>\$ 9,645,117</u></u> | <u><u>9,550,341</u></u> |

The District's interest income continues to remain low with only \$785 being earned in 2012 due to lower rates of return. With the economy and banking industry in turmoil, this number is expected to remain low throughout 2013. The non-operating expenses increased as a result of interest payments made on the Series 2011 Revenue Bonds.

Capital Assets

As of December 31, 2012, the District had invested approximately \$8.2 million in capital assets. This amount represents a net decrease (including additions and deductions) of \$124,141 under the prior year. This decrease was primarily caused by items that were identified as obsolete and removed from the asset inventory. Construction in progress had an increase of \$51,874. More detailed information about the District's capital assets is presented in Note 3 to the basic financial statements.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2012
(UNAUDITED)**

Capital Assets (Continued)

Table 3 summarizes the changes in Capital Assets.

**Table 3
Capital Assets**

| | 2012 | 2011 |
|--------------------------------|---------------------|---------------------|
| Land | \$ 727,699 | \$ 693,100 |
| Construction in Progress | 1,044,388 | 992,514 |
| Source of Supply | 1,481,791 | 1,316,644 |
| Water Treatment Plant | 4,455,573 | 4,398,777 |
| Distribution System | 11,332,232 | 11,197,024 |
| Transportation Equipment | 686,960 | 694,874 |
| Office Furniture & Equipment | 226,857 | 217,080 |
| Other Equipment | 1,306,353 | 1,288,028 |
| Less: Accumulated Depreciation | (13,083,025) | (12,495,072) |
| Total Capital Assets | <u>\$ 8,178,828</u> | <u>\$ 8,302,969</u> |

Budget Analysis

The District was short of achieving the budgeted revenue for 2012 by \$316,300. Total receipts collected were over \$3.78 million. The District's expenses (excluding depreciation) came in under budget by approximately \$111,235. This does not include depreciation expense of \$669,645. Excluding depreciation, the District expenses totaled \$3,020,515.

Debt Administration

At December 31, 2012, the District had \$2,220,000 in bonds payable. The total OPWC debt is \$385,485. More detailed information about the District's long-term debt is presented in Note 4 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 improvements. Additional money for capital improvement has been obtained through a bond renewal. District expenses have been managed well and decreased during the year. Revenue has remained flat and increased efforts to identify water loss have been initiated. The local economic conditions continue to challenge the District with customer delinquency, water theft and foreclosures. 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 Edwards, 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 POSITION
AS OF DECEMBER 31, 2012

| | 2012 |
|---|----------------------|
| ASSETS: | |
| Current Assets: | |
| Cash and Cash Equivalents | \$ 3,181,061 |
| Accounts Receivable | 696,350 |
| Deposits | 4,300 |
| Prepaid Expenses | 26,108 |
| Inventories | 108,803 |
| Total Current Assets | 4,016,622 |
| Noncurrent Assets: | |
| Deferred Charges: | |
| Deferred Charges | 61,332 |
| Restricted Assets: | |
| Cash and Cash Equivalents | 245,927 |
| Capital Assets: | |
| Non-Depreciable Capital Assets | 1,772,087 |
| Depreciable Capital Assets, Net of Depreciation | 6,406,741 |
| Total Capital Assets | 8,178,828 |
| Total Noncurrent Assets | 8,486,087 |
| TOTAL ASSETS | \$ 12,502,709 |
| LIABILITIES AND NET POSITION: | |
| Current Liabilities: | |
| Accounts Payable | \$ 73,319 |
| Employee Withholding Payable | 319 |
| Unset Water Taps Payable | 26,860 |
| Compensated Absences Payable | 62,425 |
| Customer Deposits | 1,925 |
| Current Revenue Bonds Payable | 80,000 |
| Current OPWC Loan Payable | 33,803 |
| Current Capital Lease Payable | 4,159 |
| Total Current Liabilities | 282,810 |
| Long-Term Liabilities: | |
| Long-Term Compensated Absences Payable | 70,623 |
| Capital Lease Payable | 12,477 |
| OPWC Loan Payable | 351,682 |
| Revenue Bonds Payable | 2,140,000 |
| Total Long-Term Liabilities | 2,574,782 |
| TOTAL LIABILITIES | 2,857,592 |
| Net Position: | |
| Invested in Capital Assets, Net of Related Debt | 5,556,707 |
| Restricted for Debt Service | 245,927 |
| Unrestricted | 3,842,483 |
| Total Net Position | 9,645,117 |
| TOTAL LIABILITIES AND NET POSITION | \$ 12,502,709 |

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 POSITION
FOR THE YEAR ENDED DECEMBER 31, 2012

| | 2012 |
|---|-------------------------|
| Operating Revenues: | |
| Water Sales | \$ 3,741,637 |
| Water Tap Sales | 17,641 |
| Lab Test Fees | 3,331 |
| Miscellaneous | 11,312 |
| Total Operating Revenues | 3,773,921 |
| Operating Expenses: | |
| Supply and Treatment | 1,252,308 |
| Distribution | 908,578 |
| Administration, Billing, and Office | 739,852 |
| Board Expenses | 13,175 |
| Depreciation Expense | 669,645 |
| Total Operating Expenses | 3,583,558 |
| Operating Income | 190,363 |
| Non-Operating Revenues/(Expenses): | |
| Gain on Sale of Asset | 9,494 |
| Interest Income | 785 |
| Interest Expense | (106,602) |
| Total Non-Operating Revenues/(Expenses) | (96,323) |
| Income before Contributions | 94,040 |
| Capital Contributions: | |
| Capital Contributions from Grant | 736 |
| Total Capital Contributions | 736 |
| Change in Net Position | 94,776 |
| Net Position - January 1 | 9,550,341 |
| Net Position - December 31 | \$ 9,645,117 |

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, 2012**

| | 2012 |
|---|-------------------|
| Cash Flows from Operating Activities: | |
| Receipts from Customers | \$ 3,652,305 |
| Receipts from Others | 10,511 |
| Payments to Suppliers and Vendors | (1,002,291) |
| Payments to Employees | (1,900,914) |
| | <u>759,611</u> |
| Net Cash Provided by Operating Activities | <u>759,611</u> |
| Cash Flows from Capital and Related Financing Activities: | |
| Principal on Bond | (80,000) |
| Interest on Bond | (106,602) |
| OPWC Principal | (33,803) |
| Capital Lease Principal | (4,159) |
| Proceeds from Sale of Capital Assets | 83,586 |
| Proceeds from Contributed Revenue | 736 |
| Payments for Capital Acquisitions | (619,596) |
| | <u>(759,838)</u> |
| Net Cash (Used by) Capital and Related Financing Activities | <u>(759,838)</u> |
| Cash Flows from Investing Activities: | |
| Interest Earned | 785 |
| | <u>785</u> |
| Net Cash Provided by Investing Activities | <u>785</u> |
| Net Increase in Cash and Cash Equivalents | 558 |
| Cash and Cash Equivalents - January 1 | 3,426,430 |
| | <u>3,426,988</u> |
| Cash and Cash Equivalents - December 31 | 3,426,988 |
| Reconciliation of Operating Income to Net Cash Provided by (Used by) Operating Activities: | |
| Operating Income | 190,363 |
| Adjustments: | |
| Depreciation Expense | 669,645 |
| <i>Change in Assets</i> | |
| (Increase) Decrease in Accounts Receivable | (99,818) |
| (Increase) Decrease in Prepaid Expenses | 2,317 |
| (Increase) Decrease in Inventories | (10,009) |
| (Increase) Decrease in Deferred Charges | 7,667 |
| (Increase) Decrease in Deposits | (550) |
| <i>Change in Liabilities</i> | |
| Increase (Decrease) in Accounts Payable | (4,432) |
| Increase (Decrease) in Unset Water Taps Payable | (250) |
| Increase (Decrease) in Employee's Withholding Payable | (78) |
| Increase (Decrease) in Compensated Absences Payable | 4,756 |
| | <u>569,248</u> |
| Total Adjustments | <u>569,248</u> |
| Net Cash Provided by Operating Activities | \$ 759,611 |

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
FOR THE YEAR ENDED DECEMBER 31, 2012**

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 basic 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 accounting and financial reporting principles. The District also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or after November 30, 1989, to its proprietary activities provided they do not conflict with or contradict GASB pronouncements. The more significant of the District's accounting policies are described below.

The District's operations are financed and operated in a manner similar to private business enterprises where the intent is that costs (expenses, including depreciation) of providing services to the general public on a continuing basis be financed or recovered primarily through user charges or where it has been 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 purposes.

The District's operations are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation are included on the statement of net assets. The operating statements present increases (i.e. revenues) and decreases (i.e. expenses) in total net assets.

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made.

The District uses the accrual basis of accounting. Revenues are recognized in the accounting period in which they are earned, and expenses are recognized at the time they are incurred.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012 (CONTINUED)**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. CHANGE IN ACCOUNTING PRINCIPLES

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

D. 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:

| | |
|--------------------------------|----------|
| Source of Supply | 8 years |
| Transportation Equipment | 5 years |
| Water Treatment Plant | 40 years |
| Other Equipment | 5 years |
| Distribution System | 40 years |
| Office Furniture and Equipment | 10 years |

E. 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.

F. ACCOUNTS RECEIVABLE

The District considers accounts receivable to be fully collectible; accordingly, no allowance for doubtful accounts is included in the financial statements. When amounts are deemed uncollectible, they are expensed in the year in which that determination is made.

G. 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 480 hours.

H. PENSIONS

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

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012 (CONTINUED)**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

I. 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 statement of net position.

During 2012, investments were limited to U.S. Treasury Obligations.

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.

J. 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.

K. 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 a bond issuance in 2011. Deferred charges expense for 2012 was \$7,667.

L. 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 2012 were \$26,108.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012 (CONTINUED)**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

M. 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.

N. NET POSITION

Net position represents the differences 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 improvement of those assets. Net position is reported as restricted when there are limitations imposed on their use either through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. Net position restricted for debt service consist of monies and other resources which are restricted to satisfy debt service requirements as specified in debt agreements.

NOTE 2 - EQUITY IN POOLED 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.

Interim monies may be invested or deposited 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;

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012 (CONTINUED)**

NOTE 2 - EQUITY IN POOLED DEPOSITS AND INVESTMENTS (CONTINUED)

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,
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.

According to state law, public depositories must give security for all public funds on deposit. These institutions may either specifically collateralize individual accounts in lieu of amounts insured by 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. These securities must be obligation of or guaranteed by the United States and mature or be redeemable within 5 years of the date of the related repurchase agreement. State law does not require security for public deposits and investments to be maintained in the District's name.

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

Deposits At year end, the carrying amount of the District's deposits was \$309,402 and the bank balance was \$399,677. Of the bank balance at year end 2012, \$250,000 was covered by federal depository insurance. The remaining balance 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 had the following investments at December 31, 2012:

| | Carrying Amount | Fair Value |
|---------------------------|--------------------|--------------|
| U.S. Treasury Obligations | \$ 2,875,959 | \$ 2,875,959 |
| Reserve Bond Trust | 189,514 | 189,514 |
| Reserve Bond Payment | 56,413 | 56,413 |
| Total Investments | \$ 3,121,886 | \$ 3,121,886 |

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 Treasurer will attempt to match investments with anticipated cash flow requirements to take best advantage of prevailing economic and market conditions.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012 (CONTINUED)**

NOTE 2 - EQUITY IN POOLED DEPOSITS AND INVESTMENTS (CONTINUED)

The District's investment policy does not address any restriction on investments relating to interest rate, credit, or custodial credit risks. The investment policy restricts investment in anything other than as identified in the Ohio Revised Code, except that all investments must mature within two years from the date of investments unless they are matched to a specific obligation or debt of the District. Purchasing investments that cannot be held until the maturity date is also restricted.

NOTE 3 - CAPITAL ASSETS

A summary of the District's capital assets as of December 31, 2012, is as follows:

| | 2011 | Additions | Deletions | 2012 |
|--|---------------------|-------------------|---------------------|---------------------|
| Capital Assets, Not Being Depreciated | | | | |
| Land | \$ 693,100 | \$ 34,599 | \$ - | \$ 727,699 |
| Construction in Progress | 992,514 | 482,285 | (430,411) | 1,044,388 |
| Total Capital Assets, Not Being Depreciated | 1,685,614 | 516,884 | (430,411) | 1,772,087 |
| Capital Assets Being Depreciated | | | | |
| Source of Supply | 1,316,644 | 165,147 | - | 1,481,791 |
| Water Treatment Plant | 4,398,777 | 172,567 | (115,771) | 4,455,573 |
| Distribution System | 11,197,024 | 158,512 | (23,304) | 11,332,232 |
| Transportation Equipment | 694,874 | 58,245 | (66,159) | 686,960 |
| Office Furniture & Equipment | 217,080 | 22,759 | (12,982) | 226,857 |
| Other Equipment | 1,288,028 | 22,893 | (4,568) | 1,306,353 |
| Total Capital Assets Being Depreciated | 19,112,427 | 600,123 | (222,784) | 19,489,766 |
| Less Accumulated Depreciation | | | | |
| Source of Supply | (961,676) | (53,340) | - | (1,015,016) |
| Water Treatment Plant | (3,099,790) | (144,483) | 13,811 | (3,230,462) |
| Distribution System | (6,718,340) | (350,800) | 23,304 | (7,045,836) |
| Transportation Equipment | (581,986) | (40,961) | 29,703 | (593,244) |
| Office Furniture & Equipment | (165,995) | (15,635) | 12,982 | (168,648) |
| Other Equipment | (967,285) | (64,426) | 1,892 | (1,029,819) |
| Less Accumulated Depreciation | (12,495,072) | (669,645) | 81,692 | (13,083,025) |
| Total Capital Assets Being Depreciated, Net | 6,617,355 | (69,522) | (141,092) | 6,406,741 |
| Total Capital Assets, Net | \$ 8,302,969 | \$ 447,362 | \$ (571,503) | \$ 8,178,828 |

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012 (CONTINUED)**

NOTE 4 - DEBT

A schedule of changes in bonds and other long-term debt obligations of the District during 2012 follows:

| | Amount Outstanding 12/31/11 | Additions | Deletions | Amount Outstanding 12/31/12 | Amounts Due in One Year |
|--|-----------------------------------|-----------------|-------------------|-----------------------------------|-------------------------------|
| Water System Revenue Refunding & Improvement Bonds (2011) | \$ 2,300,000 | \$ - | \$ 80,000 | \$ 2,220,000 | \$ 80,000 |
| OPWC Loans 1999- 2009 (0.00%) | 419,288 | - | 33,803 | 385,485 | 33,803 |
| Compensated Absences | <u>128,292</u> | <u>4,756</u> | <u>-</u> | <u>133,048</u> | <u>62,425</u> |
| Total | <u>\$ 2,847,580</u> | <u>\$ 4,756</u> | <u>\$ 113,803</u> | <u>\$ 2,738,533</u> | <u>\$ 176,228</u> |

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 2.00%. Payments are made yearly.

The OPWC loans were issued for the purpose of financing the Fairgrounds Road Water Line, 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, 2012 are as follows:

| Year Ending December 31 | Improvement Bonds | | OPWC Loans | | Total | |
|----------------------------|---------------------|---------------------|-------------------|-------------|---------------------|---------------------|
| | Principal | Interest | Principal | Interest | Principal | Interest |
| 2013 | \$ 80,000 | \$ 102,813 | \$ 33,803 | \$ - | \$ 113,803 | \$ 102,813 |
| 2014 | 85,000 | 101,013 | 33,803 | - | 118,803 | 101,013 |
| 2015 | 85,000 | 98,888 | 33,803 | - | 118,803 | 98,888 |
| 2016 | 90,000 | 96,550 | 33,803 | - | 123,803 | 96,550 |
| 2017 | 90,000 | 93,850 | 33,803 | - | 123,803 | 93,850 |
| 2018-2022 | 505,000 | 414,625 | 126,706 | - | 631,706 | 414,625 |
| 2023-2027 | 640,000 | 283,050 | 64,764 | - | 704,764 | 283,050 |
| 2028-2031 | 645,000 | 91,625 | 25,000 | - | 670,000 | 91,625 |
| | <u>\$ 2,220,000</u> | <u>\$ 1,282,414</u> | <u>\$ 385,485</u> | <u>\$ -</u> | <u>\$ 2,605,485</u> | <u>\$ 1,282,414</u> |

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012 (CONTINUED)**

NOTE 5 - LEASES

A schedule of changes in lease obligations of the District during 2012 follows:

| | Amount Outstanding 12/31/11 | Additions | Deletions | Amount Outstanding 12/31/12 | Amounts Due in One Year |
|--------------------|-----------------------------------|-------------|-----------------|-----------------------------------|-------------------------------|
| Xerox Lease (2011) | \$ 20,795 | \$ - | \$ 4,159 | \$ 16,636 | \$ 4,159 |
| Total | <u>\$ 20,795</u> | <u>\$ -</u> | <u>\$ 4,159</u> | <u>\$ 16,636</u> | <u>\$ 4,159</u> |

The District entered into an agreement to lease a copier during 2011. 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.

The capital asset acquired by the lease was capitalized in the statement of net assets in the amount of \$20,795 which was 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 position. Principal payments in the year totaled \$4,159.

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, 2012:

| Year Ending <u>December 31</u> | Xerox Lease |
|-----------------------------------|------------------|
| 2013 | \$ 4,159 |
| 2014 | 4,159 |
| 2015 | 4,159 |
| 2016 | 4,159 |
| Total Lease Payments | <u>\$ 16,636</u> |

NOTE 6 - RISK MANAGEMENT

The District belongs to the Ohio Plan Risk Management, Inc. (OPRM) - formerly known as the Ohio Risk Management Plan, (the "Plan"), a non-assessable, unincorporated non-profit association providing a formalized, jointly administered self-insurance risk management program and other administrative services to Ohio governments ("Members"). The Plan is legally separate from its member governments.

Pursuant to Section 2744.081 of the Ohio Revised Code, the plan provides property, liability, errors and omissions, law enforcement, automobile, excess liability, crime, surety and bond, inland marine and other coverages to its members sold through fourteen appointed independent agents in the State of Ohio.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012 (CONTINUED)**

NOTE 6 - RISK MANAGEMENT (Continued)

OPRM coverage programs are developed specific to each member's risk management needs and the related premiums for coverage are determined through the application of uniform underwriting criteria addressing the member's exposure to loss, except OPRM retains 41.5% (41.5% effective November 1, 2011, 40% through October 31, 2011 and 17.5% through October 31, 2010) of the premium and losses on the first \$250,000 casualty treaty and 10% of the first \$1,000,000 property treaty. Members are only responsible for their self-retention (deductible) amounts, which vary from member to member. OPRM had 782 and 761 members as of December 31, 2011 and 2010 respectively (the latest information available).

Plan members are responsible to notify the Plan of their intent to renew coverage by their renewal date. If a member chooses not to renew with the Plan, they have no other financial obligation to the Plan, but still need to promptly notify the Plan of any potential claims occurring during their membership period. The former member's covered claims, which occurred during their membership period, remain the responsibility of the Plan.

Settlement amounts did not exceed insurance coverage for the past three fiscal years.

The Pool's audited financial statements conform with generally accepted accounting principles, and reported the following assets, liabilities and retained earnings at December 31: 2011 and 2010 (the latest information available).

| | 2011 | 2010 |
|-----------------|--------------|--------------|
| Assets | \$12,501,280 | \$12,036,541 |
| Liabilities | (5,328,761) | (4,845,056) |
| Members' Equity | \$7,172,519 | \$7,191,485 |

You can read the complete audited financial statements for OPRM at the Plan's website, www.ohioplan.org.

NOTE 7 - PENSION PLAN

The District participates in the Ohio Public Employees Retirement System (OPERS). 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.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012 (CONTINUED)**

NOTE 7 - PENSION PLAN (CONTINUED)

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 2012, member and employer contribution rates were consistent across all three plans. Members in the state and local divisions may participate in all three plans.

The 2012 member contribution rates were 10.00% of covered payroll for members in state and local classifications.

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

The District's contributions to the PERS of Ohio for the years ended December 31, 2010, 2011 and 2012 were \$300,345, \$267,748 and \$196,617, respectively, which were equal to the total required contributions

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.

NOTE 8 – POST-EMPLOYMENT BENEFITS

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 members of both the Traditional Pension and the Combined plans. Members of the Member-Directed Plan do not qualify for ancillary benefits, including post-employment health care coverage.

In order to qualify for post-employment health care coverage, age-and-service retirees under the Traditional Pension and Combined plans must have 10 or more years of qualifying Ohio service credit. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available. The health care coverage provided by OPERS meets the definition of an Other Post Employment Benefit (OPEB) as described in GASB Statement 45.

The Ohio Revised Code permits, but does not mandate, OPERS to provide the OPEB Plan to its eligible members and beneficiaries. Authority to establish and amend the OPEB Plan 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.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012 (CONTINUED)**

NOTE 8 – POST-EMPLOYMENT BENEFITS (Continued)

Funding Policy

The Ohio Revised Code provides the statutory authority requiring public employers to fund post retirement health care coverage 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 coverage.

Employer contribution rates are expressed as a percentage of the covered payroll of active members. In 2012, state and local employers contributed at a rate of 14.00% of covered payroll 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 members do not make contributions to the OPEB Plan.

OPERS' Post Employment Health Care plan was established under, and is administered in accordance with, Internal Revenue Code 401(h). Each year, the OPERS Board of Trustees determines the portion of the employer contribution rate that will be set aside for funding of post employment health care benefits. The portion of employer contributions allocated to health care for members in the Traditional Plan was 40% during calendar year 2012. The portion of employer contributions allocated to health care for members in the Combined Plan was 6.05% during calendar year 2012. Effective January 1, 2013, the portion of employer contributions allocated to healthcare was lowered to 1% for both plans, as recommended by the OPERS Actuary. The OPERS Board of Trustees is also authorized to establish rules for the retiree or their surviving beneficiaries to pay a portion of the health care benefits provided. Payment amounts vary depending on the number of covered dependents and the coverage selected.

The District's contributions allocated to fund post employment health care benefits for the year ended December 31, 2012 was \$56,173. The full amount has been contributed for 2012.

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 recent passage of pension legislation under SB 343 and the approved health care changes, OPERS expects to be able to consistently allocate 4 percent of the employer contributions toward the health care fund after the end of the transition period.

NOTE 9 - COMPENSATED ABSENCES

All full-time District employees earn vacation at varying rates based upon length of service. Upon separation from the 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, 2012, the total vested liability for accumulated unpaid vacation, sick leave and compensatory time recorded was \$133,048.

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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

April 26, 2013

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

To the Board of Directors:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the business-type activities of the **Scioto County Regional Water District #1**, Scioto County, Ohio, (the District) as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated April 26, 2013, wherein we noted the District has adopted Governmental Accounting Standards Board Statement No. 63.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Respectfully Submitted,

A handwritten signature in 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.



Dave Yost • Auditor of State

SCIOTO COUNTY 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 20, 2013**