



Certified Public Accountants, A.C.

**SCIOTO COUNTY  
REGIONAL WATER DISTRICT #1  
SCIOTO COUNTY  
Regular Audit  
For the Years Ended  
December 31, 2017 and 2016**

313 Second St.  
Marietta, OH 45750  
740.373.0056

1907 Grand Central Ave.  
Vienna, WV 26105  
304.422.2203

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

1310 Market St.,  
Suite 300  
Wheeling, WV 26003  
304.232.1358

749 Wheeling Ave.,  
Suite 300  
Cambridge, OH 43725  
740.435.3417

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





# Dave Yost • Auditor of State

Board of Directors  
Scioto County Regional Water District #1  
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, 2016 through December 31, 2017. 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 cursive script that reads "Dave Yost".

Dave Yost  
Auditor of State

April 30, 2018

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

**TABLE OF CONTENTS**

TITLE	PAGE
Independent Auditor's Report .....	1
2017:	
Management's Discussion and Analysis.....	3
Basic Financial Statements:	
Statement of Net Position .....	11
Statement of Revenues, Expenses and Changes in Net Position.....	12
Statement of Cash Flows .....	13
Notes to the Basic Financial Statements .....	14
Required Supplementary Information:	
Schedule of the Proportionate Share of Net Pension Liability – Public Employees Retirement System.....	33
Schedule of Contributions – Public Employees Retirement System.....	34
2016:	
Management's Discussion and Analysis.....	35
Basic Financial Statements:	
Statement of Net Position .....	43
Statement of Revenues, Expenses and Changes in Net Position.....	44
Statement of Cash Flows .....	45
Notes to the Basic Financial Statements .....	46
Required Supplementary Information:	
Schedule of the Proportionate Share of Net Pension Liability – Public Employees Retirement System.....	66
Schedule of Contributions – Public Employees Retirement System.....	67
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by <i>Government Auditing Standards</i> .....	68
Schedule of Prior Audit Findings.....	70

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740.435.3417

## INDEPENDENT AUDITOR'S REPORT

April 6, 2018

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

To the Board of Directors:

### ***Report on the Financial Statements***

We have audited the accompanying financial statements of the **Scioto County Regional Water District #1**, Scioto County, Ohio (the District), as of and for the years ended December 31, 2017 and 2016, 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 financial position of the Scioto County Regional Water District #1, Scioto County as of December 31, 2017 and 2016, and the changes in its financial position and its cash flows for the years then ended in accordance with the accounting principles generally accepted in the United States of America.

**Other Matters**

*Required Supplementary Information*

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

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated April 6, 2018, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.



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



**SCIOTO COUNTY REGIONAL WATER DISTRICT NO. 1  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2017**

Our discussion and analysis of the Scioto County Regional Water District #1 financial performance provides an overview of the District's financial activities for the year ended December 31, 2017. 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 to those statements.

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 District. 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) Net Investment in Capital Assets 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* includes a summary of the cash flows from operations, capital and related financing 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.

## **SCIOTO COUNTY REGIONAL WATER DISTRICT NO. 1 MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)**

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### **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, liabilities, deferred outflows and deferred inflows with the difference between the two reported as net position. Net position is displayed in three categories:

- Net Investment in Capital Assets
- 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 Revenue, 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.

*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.

## **SCIOTO COUNTY REGIONAL WATER DISTRICT NO. 1 MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)**

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During 2015, the District adopted GASB Statement 68, "Accounting and Financial Reporting for Pensions—an Amendment of GASB Statement 27," which significantly revises accounting for pension costs and liabilities. For reasons discussed below, many end users of this financial statement will gain a clearer understanding of the District's actual financial condition by adding deferred inflows related to pension and the net pension liability to the reported net position and subtracting deferred outflows related to pension.

Governmental Accounting Standards Board standards are national and apply to all government financial reports prepared in accordance with generally accepted accounting principles. When accounting for pension costs, GASB 27 focused on a funding approach. This approach limited pension costs to contributions annually required by law, which may or may not be sufficient to fully fund each plan's *net pension liability*. GASB 68 takes an earnings approach to pension accounting; however, the nature of Ohio's statewide pension systems and state law governing those systems requires additional explanation in order to properly understand the information presented in these statements.

Under the new standards required by GASB 68, the net pension liability equals the District's proportionate share of each plan's collective:

1. Present value of estimated future pension benefits attributable to active and inactive employees' past service
- 2 Minus plan Position available to pay these benefits

GASB notes that pension obligations, whether funded or unfunded, are part of the "employment exchange" – that is, the employee is trading his or her labor in exchange for wages, benefits, and the promise of a future pension. GASB noted that the unfunded portion of this pension promise is a present obligation of the government, part of a bargained-for benefit to the employee, and should accordingly be reported by the government as a liability since they received the benefit of the exchange. However, the District is not responsible for certain key factors affecting the balance of this liability. In Ohio, the employee shares the obligation of funding pension benefits with the employer. Both employer and employee contribution rates are capped by State statute. A change in these caps requires action of both Houses of the General Assembly and approval of the Governor. Benefit provisions are also determined by State statute. The employee enters the employment exchange with the knowledge that the employer's promise is limited not by contract but by law. The employer enters the exchange also knowing that there is a specific, legal limit to its contribution to the pension system. In Ohio, there is no legal means to enforce the unfunded liability of the pension system *as against the public employer*. State law operates to mitigate/lessen the moral obligation of the public employer to the employee, because all parties enter the employment exchange with notice as to the law. The pension system is responsible for the administration of the plan.

**SCIOTO COUNTY REGIONAL WATER DISTRICT NO. 1  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)**

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Most long-term liabilities have set repayment schedules or, in the case of compensated absences (i.e. sick and vacation leave), are satisfied through paid time-off or termination payments. There is no repayment schedule for the net pension liability. As explained above, changes in pension benefits, contribution rates, and return on investments affect the balance of the net pension liability, but are outside the control of the local government. In the event that contributions, investment returns, and other changes are insufficient to keep up with required pension payments, State statute does not assign/identify the responsible party for the unfunded portion. Due to the unique nature of how the net pension liability is satisfied, this liability is separately identified within the long-term liability section of the statement of net position.

In accordance with GASB 68, the District's statements prepared on an accrual basis of accounting include an annual pension expense for their proportionate share of each plan's *change* in net pension liability not accounted for as deferred inflows/outflows.

**Financial Highlights**

During the year ending December 31, 2017, the District's operating revenues were over \$4.5 million. Operating expenses were \$4.3 million resulting in \$205,438 gain from operations. There were no rate increases in 2017, so revenues remained stable and very similar to the previous year.

During 2017, the sale of bulk water was a significant source of revenue totaling \$821,145. This was an increase from the previous year. Although we continue to be a back-up source for Southern Ohio Correctional Facility, they did not use our services during 2017. Portsmouth Joint Venture (PJV), the entity constructing the 823 Bypass, was an additional source of bulk water revenue in 2017. This will continue into 2018 but with the Bypass completion scheduled for late 2018 that source of revenue will diminish.

Several projects in the plant and distribution departments were completed in 2017. Plant projects included the development of new wells in the well field as well as rehabilitation of old wells. Distribution projects included tank rehabilitation for Swauger, Clarktown, and Rigrish, Simon Miller Interconnect, completion of the work on the line relocations required by the ODOT Bypass State Route 823 along with various other line replacement projects throughout the system.

We are continuing the GIS Project and are in the final phase of the project. The new electronic work order system was completed and put into operation. This allows our data from the GIS System and our Utility Billing system to push into operation. This allows our data from the GIS System and our Utility Billing system to push information to the workers in the field. This new system is called Workforce. We are also developing a Survey option in Workforce that will allow us to document preventative maintenance on our infrastructure and assets. GIS continues to work towards having a hydrology model of our water system.

**SCIOTO COUNTY REGIONAL WATER DISTRICT NO. 1  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)**

**Financial Analysis of the District**

**Net Position** - The District's net position between fiscal years 2016 and 2017 increased from \$11,274,821 to \$11,413,889. This is an increase of \$139,068.

Net position represents the difference between all other elements of the statement of financial position. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvements of those assets.

**Table 1  
Net Position**

<b>Assets</b>	<b>2017</b>	<b>2016</b>	<b>Increase (Decrease)</b>
Total Current Assets	\$ 4,687,584	\$ 4,881,672	\$ (194,079)
Total Capital Assets	10,522,622	9,995,950	526,672
Total Non-Current Assets	10,778,388	10,248,960	529,428
<i>Total Assets</i>	<u>15,465,972</u>	<u>15,130,632</u>	<u>335,349</u>
<b>Deferred Outflows of Resources</b>			
Deferred Charge on Debt	23,000	30,666	(7,666)
Deferred Hydrology	93,880	93,880	-
Deferred Pension Related	1,134,947	814,499	320,448
Total Deferred Outflows of Resources	<u>1,251,827</u>	<u>845,165</u>	<u>406,662</u>
<b>Liabilities</b>			
Total Current Liabilities	441,095	470,907	(29,812)
Total Noncurrent Liabilities	4,846,080	4,190,463	655,617
<i>Total Liabilities</i>	<u>5,287,175</u>	<u>4,661,370</u>	<u>625,805</u>
<b>Deferred Inflows of Resources</b>			
Pension	16,735	39,606	(22,871)
<b>Net Investment in Capital Assets</b>			
Restricted for Other Purposes	8,525,232	7,877,784	647,448
Unrestricted	255,766	253,010	2,756
	2,632,891	3,144,027	(511,136)
<i>Total Net Position</i>	<u>\$ 11,413,889</u>	<u>\$ 11,274,821</u>	<u>\$ 139,068</u>

**SCIOTO COUNTY REGIONAL WATER DISTRICT NO. 1  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)**

**Change in Net Position** – The District's operating revenue was \$4,527,767; operating expenses had an increase of \$510,025. Although, much of this increase can be attributed to changes in the amounts recognized by GASB 68 and an increase in depreciation.

In fiscal year 2017, 99% of the District's operating revenues came from water and tap sales with \$821,444 coming from bulk customers. In addition, Water Tap Sales remained stable at \$47,825 resulting in a Change in Net Position of \$139,068. Overall, revenues and expenses remained stable.

**Table 2  
Changes in Net Position**

	2017	2016	Increase (Decrease)
<b>Operating Revenues</b>			
Water Sales	\$ 4,424,978	\$ 4,094,838	\$ 330,140
Water Tap Sales	47,825	48,800	(975)
Lab Test Fees	2,144	2,400	(256)
Miscellaneous	52,820	387,991	(335,171)
<b>Non-Operating Revenues</b>			
Gain/Loss on Sale of Asset	-	5,585	(5,585)
Interest Income	28,776	16,163	12,613
<i>Total Revenues</i>	<b>4,556,543</b>	<b>4,555,777</b>	<b>766</b>
<b>Operating Expenses</b>			
Supply and Treatment	1,460,436	1,343,845	116,591
Distribution	1,273,156	1,166,193	106,963
Administration, Billing, and Office	991,142	893,218	97,924
Board Expenses	13,039	13,386	(347)
Depreciation Expenses	584,556	393,127	191,429
<b>Non-Operating Expenses</b>			
Interest Expense	95,882	98,417	(2,535)
<i>Total Expenses</i>	<b>4,418,211</b>	<b>3,908,186</b>	<b>510,025</b>
<i>Income Before Contributions</i>	<b>138,332</b>	<b>647,591</b>	<b>(509,259)</b>
Total Capital Contributions	<b>736</b>	368	368
Change in Net Position	139,068	647,959	(508,891)
<i>Net Position Beginning of Year</i>	11,274,821	10,626,862	647,959
<i>Net Position End of Year</i>	<b>\$ 11,413,889</b>	<b>\$ 11,274,821</b>	<b>\$ 139,068</b>

**SCIOTO COUNTY REGIONAL WATER DISTRICT NO. 1  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)**

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**Capital Position**

As of December 31, 2017, the District had invested over \$10.5 million in capital assets. This amount represents a net increase of \$526,672 over the prior year. Construction in Progress increased by \$483,574 as additional projects were started in 2017. More detailed information about the District's capital Position is presented in Note 4 to the basic financial statements.

**Table 3  
Capital Assets**

---

	<b>2017</b>		<b>2016</b>
Land	\$ 912,327	\$	903,073
Construction and Assets in Progress	1,760,474		1,276,900
Source of Supply	1,753,769		1,697,920
Water Treatment Plant	4,920,821		4,895,781
Distribution System	14,036,344		13,705,602
Transportation Equipment	864,091		791,459
Office Furniture and Equipment	319,732		307,363
Other Equipment	1,668,300		1,603,471
Less: Accumulated Depreciation	(15,713,236)		(15,185,619)
Totals	<u>\$ 10,522,622</u>	\$	<u>9,995,950</u>

**Budget Analysis**

The District exceeded the budgeted revenue for 2017 by \$21,779. Total receipts collected were over \$4.55 million. The District's expenses exceeded the budget by approximately \$17,013 (excluding depreciation and GASB 68 pension expense). The District expenses for 2017 totaled with the depreciation and the GASB 68 pension expense was \$4,417,521.

**Debt Administration**

At December 31, 2017, the District had \$1,790,000 in bonds payable. The total OPWC debt is \$216,471. More detailed information about the District's long-term debt is presented in Note 5 to the Basic Financial Statements.

**SCIOTO COUNTY REGIONAL WATER DISTRICT NO. 1  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)**

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**Economic Factors**

The District's financial condition remains stable as upgrades and improvements to the system are completed. Additional money for capital improvement was obtained through a bond renewal in 2011, giving the district funds to complete/begin several important operational projects. A new water tank has been installed at the Haystack site, and expansion of the Well Field and rehabilitation of old wells is currently in progress. District expenses have been managed well and remained stable. Revenue remained stable in 2017 with small increase of \$765 over the previous year. The local economic conditions continue to challenge the district with customer delinquency, water theft, and foreclosures. However, the District did see an increase in Tap Sales during 2016 and the same in 2017 which is a promising indicator. Construction on the SR 823 Bypass has also increased usage. This project will continue through 2018.

**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 the 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, 2017**

	<b>2017</b>
<b>ASSETS:</b>	
Current Assets:	
Cash and Cash Equivalents	\$ 3,748,071
Accounts Receivable	749,526
Deposits	5,600
Inventories	172,907
Prepaid Expenses	11,480
Total Current Assets	4,687,584
Noncurrent Assets:	
Restricted Assets:	
Investments	255,766
Capital Assets:	
Non-Depreciable Capital Assets	2,672,801
Depreciable Capital Assets, Net of Depreciation	7,849,821
Total Capital Assets	10,522,622
Total Noncurrent Assets	10,778,388
<b>TOTAL ASSETS</b>	<b>15,465,972</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	
Deferred Charge on Debt	23,000
Deferred Hydrology	93,880
Pension	1,134,947
<b>TOTAL DEFERRED OUTFLOWS OF RESOURCES</b>	<b>1,251,827</b>
<b>TOTAL ASSETS AND DEFERRED OUTFLOWS</b>	<b>\$ 16,717,799</b>
<b>LIABILITIES AND EQUITY:</b>	
Current Liabilities:	
Accounts Payable	\$ 79,627
Accrued Wages	53,559
Employee Withholding Payable	30,728
Unset Water Taps Payable	28,400
Compensated Absences Payable	111,888
Customer Deposits	3,450
Current Bonds Payable	95,000
Current OPWC Payable	33,803
Current Capital Lease Payable	4,640
Total Current Liabilities	441,095
Noncurrent Liabilities:	
Long Term Compensated Absences Payable	147,163
Capital Lease Payable	9,279
OPWC Loan Payable	182,668
Net Pension Liability	2,811,970
Revenue Bonds Payable	1,695,000
Total Noncurrent Liabilities	4,846,080
<b>TOTAL LIABILITIES</b>	<b>5,287,175</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>	
Pension	16,735
<b>TOTAL DEFERRED INFLOWS OF RESOURCES</b>	<b>16,735</b>
Net Position:	
Net Investment in Capital Assets	8,525,232
Restricted for:	
Debt Service	255,766
Unrestricted	2,632,891
Total Net Position	11,413,889
<b>TOTAL LIABILITIES, DEFERRED INFLOWS AND NET POSITION</b>	<b>\$ 16,717,799</b>

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, 2017**

	<b>2017</b>
<b>Operating Revenues:</b>	
Water Sales	\$ 4,424,978
Water Tap Sales	47,825
Lab Test Fees	2,144
Miscellaneous	52,820
	4,527,767
<b>Operating Expenses:</b>	
Supply and Treatment	1,460,436
Distribution	1,273,156
Administration, Billing, and Office	991,142
Board Expenses	13,039
Depreciation Expense	584,556
	4,322,329
Operating Income/(Loss)	205,438
<b>Non-Operating Revenues/(Expenses):</b>	
Interest Income	28,776
Interest Expense	(95,882)
	(67,106)
Income before Contributions	138,332
<b>Capital Contributions</b>	
Capital Contributions from Grant	736
	736
Total Capital Contributions	736
Change in Net Position	139,068
Net Position - January 1	11,274,821
	11,274,821
<b>Net Position - December 31</b>	<b>\$ 11,413,889</b>

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, 2017**

	<b>2017</b>
<b>Cash Flows from Operating Activities:</b>	
Receipts from Customers	\$ 4,479,027
Receipts from Others	8,460
Payments to Suppliers and Vendors	(748,876)
Payments to Employees	(2,640,605)
Net Cash Provided by (Used by) Operating Activities	1,098,006
<b>Cash Flows from Capital and Related Financing Activities:</b>	
Principal on Bond	(90,000)
Interest on Bond	(95,882)
OPWC Principal	(33,803)
Capital Lease Principal	(4,640)
Proceeds from Grant Funds	736
Payments for Capital Acquisitions	(1,111,219)
Net Cash Provided by (Used by) Capital and Related Financing Activities	(1,334,808)
<b>Cash Flows from Investing Activities:</b>	
Interest Earned	28,777
Net Cash Provided by (Used by) Investing Activities	28,777
Net Increase/(Decrease) in Cash and Cash Equivalents	(208,025)
Cash and Cash Equivalents - January 1	4,211,862
<b>Cash and Cash Equivalents - December 31</b>	<b>4,003,837</b>
<b>Reconciliation of Operating Income to Net Cash Provided by (Used by) Operating Activities:</b>	
Operating Income	205,438
<b>Adjustments:</b>	
Depreciation Expense	584,556
<i>Change in Assets</i>	
(Increase) Decrease in Accounts Receivable	(40,280)
(Increase) Decrease in Deposits	(1,850)
(Increase) Decrease in Inventories	(849)
(Increase) Decrease in Prepaid Expenses	26,277
(Increase) Decrease in Deferred Charges	7,666
(Increase) Decrease in Deferred Hydrology	(93,880)
(Increase) Decrease in Deferred Outflows of Resources - Pensions	(320,448)
<i>Change in Liabilities</i>	
Increase (Decrease) in Accounts Payable	(35,237)
Increase (Decrease) in Accrued Wages	(754)
Increase (Decrease) in Employee Withholding Payable	629
Increase (Decrease) in Water Taps Payable	1,250
Increase (Decrease) in Compensated Absences Payable	26,187
Increase (Decrease) in Net Pension Liability	762,172
Increase (Decrease) in Deferred Inflows of Resources - Pensions	(22,871)
Total Adjustments	892,568
Net Cash Provided by (Used by) Operating Activities	<b>\$ 1,098,006</b>

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, 2017

**NOTE 1 - 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 Regional Water District Number One 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

***Reporting Entity***

A reporting entity is composed of the primary government, component units, and other organizations that are included to ensure the financial statements are not misleading. The primary government consists of all fund, department, board, and agencies that are not legally separate from the District. For Scioto County Regional Water District #1 this includes general operations of the District.

Component units are legally separate organizations for which the District is financially accountable. The District is financially accountable for an organization if the District appoints a voting majority of the organization's governing board and (1) the District is able to significantly influence the programs or services performed or provided by the organization; or (2) the District is legally entitled to or can otherwise access the organization's resources; the District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the District in that the District approves the budget, the issuance of debt, or the levying of taxes. The District has no component units.

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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 more significant of the District's accounting policies are described below.

**Measure Focus and Basis of Accounting**

The District's operations are financed and operated in a manner similar to a 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.

SCIOTO COUNTY REGIONAL WATER DISTRICT #1  
SCIOTO COUNTY

Notes to the Basic Financial Statements  
For the Year Ended December 31, 2017  
(Continued)

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Measure Focus and Basic of Accounting (Continued)**

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 Position. The operating statements present increases (i.e. revenues) and decreases (i.e. expenses) in total net position. The Statement of Cash Flows provides information about how the District finances and meets its cash flow needs.

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.

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.

The District's basic financial statements consist of a Statement of Net Position, a Statement of Revenues, Expenses, and Changes in Net Position, and a Statement of Cash Flows.

For financial reporting, the District uses an enterprise fund presentation. Enterprise fund reporting focuses on the determination of the change in net position, financial position and cash flows. An enterprise fund may be used to account for any activity for which a fee is charged to external users for goods and services.

**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 acquisition 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 & Lines	40 years
Furniture and Office Equipment	10 years

**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.

SCIOTO COUNTY REGIONAL WATER DISTRICT #1  
SCIOTO COUNTY

Notes to the Basic Financial Statements  
For the Year Ended December 31, 2017  
(Continued)

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**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.

**Restricted Assets**

The District is required to keep an account in reserve that is equal to the year with the highest principal and interest total on the bond amortization schedule. This amount is \$189,554. The District is also required to maintain accounts for the principal and interest payments on the bond.

**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.

**Pensions**

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the pension plans and additions to/deductions from their fiduciary net position have been determined on the same basis as they are reported by the pension systems. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. The pension systems report investments at fair value.

**Cash and 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 2017, the District invested in negotiable certificates of deposit, federal agency securities, mutual funds, and Star Ohio. Investments are reported at fair value which is based on quoted market price or current share price. Star Ohio is an investment pool, managed by the State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes. Star Ohio is not registered with the SEC as an investment company but has adopted Governmental Accounting Standards Board Statement No. 79, "Certain External Investment Pools and Pool Participants". The District measures the investment in Star Ohio at the net asset value (NAV) per share provided by Star Ohio. The NAV per share is calculated on an amortized cost basis that provides a NAV that approximates fair value.

For 2017, there were no limitations or restrictions on any participant withdrawals due to redemption notice periods, liquidity fees, or redemption gates. However, notice must be given twenty-four hours in advance of all deposits and withdrawals exceeding \$25 million. Star Ohio reserves the right to limit the transaction to \$50 million requiring the excess amount to be transacted the following business day(s) but only to the \$50 million limit. All accounts of the participant will be combined for this purpose.

SCIOTO COUNTY REGIONAL WATER DISTRICT #1  
SCIOTO COUNTY

Notes to the Basic Financial Statements  
For the Year Ended December 31, 2017  
(Continued)

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**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.

**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 2017 was \$7,667. Additional deferred charges were incurred with a Hydrology study of the Well Field. These charges totaled \$93,880 and will be amortized annually for 10 years.

**Deferred Outflows/Inflows of Resources**

In addition to assets, the statements of financial position will sometimes report a separate section for deferred outflows of resources. Deferred outflows of resources represent a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until then. For the District, deferred outflows of resources are reported on the statement of net position for pension and deferred debt charges. The deferred outflows of resources related to pension are explained in Note 10.

In addition to liabilities, the statements of financial position report a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized until that time. For the District, deferred inflows of resources are reported on the statement of net position for pension. The deferred inflows of resources related to pension are explained in Note 10.

**Prepaid Expenses**

Prepaid Expenses are 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 2017 were \$11,480.

SCIOTO COUNTY REGIONAL WATER DISTRICT #1  
SCIOTO COUNTY

Notes to the Basic Financial Statements  
For the Year Ended December 31, 2017  
(Continued)

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**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.

**Net Position**

Net position represents the differences in all other elements of the statement of financial position. 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 and regulations of other governments. Net position restricted for debt service consists of monies and other resources which are restricted to satisfy debt service requirements as specified in debt agreements.

The District applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available.

**Operating Revenues and Expenses**

Operating revenues are those revenues that are generated directly from the primary activities of the District. These revenues consist of certain sales and fees. Operating expenses are necessary costs incurred to provide the goods or services that are the primary activity of the District. Revenues and expenses not meeting this definition are reported as non-operating.

**NOTE 3 - EQUITY IN POOLED CASH AND INVESTMENTS**

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

Active deposits are public deposits necessary to meet current demands on the treasury. Such monies must be maintained either as cash in the District Treasury, in commercial accounts payable or 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.



SCIOTO COUNTY REGIONAL WATER DISTRICT #1  
SCIOTO COUNTY

Notes to the Basic Financial Statements  
For the Year Ended December 31, 2017  
(Continued)

**NOTE 3 - EQUITY IN POOLED CASH AND INVESTMENTS (Continued)**

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 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,
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.

SCIOTO COUNTY REGIONAL WATER DISTRICT #1  
SCIOTO COUNTY

Notes to the Basic Financial Statements  
For the Year Ended December 31, 2017  
(Continued)

**NOTE 3 - EQUITY IN POOLED CASH AND INVESTMENTS (Continued)**

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 \$543,753. Of the bank balance at year end 2017, \$250,000 was covered by federal depository insurance. The remaining balances were 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, 2017:

	Carrying Amount	Fair Value
Star Plus	\$ 194,571	\$ 194,571
Star Ohio	3,009,347	3,009,347
Reserve Bond Trust - Cash Equivalents	189,554	189,554
Reserve Bond Payment - Cash Equivalents	55,416	55,416
Reserve Bond Interest - Cash Equivalents	10,796	10,796
Total Investments	<u>\$ 3,459,684</u>	<u>\$ 3,459,684</u>

The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets. Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. The above chart identifies the District's recurring fair value measurements as of December 31, 2017. All of the District's investments measured at fair value are valued using quoted market prices (Level 1 inputs).

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.

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.

SCIOTO COUNTY REGIONAL WATER DISTRICT #1  
SCIOTO COUNTY

Notes to the Basic Financial Statements  
For the Year Ended December 31, 2017  
(Continued)

**NOTE 4 – CAPITAL ASSETS**

A summary of the District's capital assets as of December 31, 2017, are as follows:

	2016	Additions	Deletions	2017
<b>Capital Assets, Not Being Depreciated</b>				
Land	\$ 903,072	\$ 9,254	\$ -	\$ 912,326
Construction in Progress	1,276,902	483,573	-	1,760,475
<b>Total Capital Assets, Not Being Depreciated</b>	<u>2,179,974</u>	<u>492,827</u>	<u>-</u>	<u>2,672,801</u>
 <b>Capital Assets Being Depreciated</b>				
Source of Supply	\$ 1,697,920	55,849	-	1,753,769
Water Treatment Plant	4,895,781	38,450	13,410	4,920,821
Distribution System	13,705,602	374,261	43,519	14,036,344
Transportation Equipment	791,459	72,632	-	864,091
Office Furniture & Equipment	307,363	12,369	-	319,732
Other Equipment	1,603,471	64,829	-	1,668,300
<b>Total Capital Assets Being Depreciated</b>	<u>23,001,596</u>	<u>618,390</u>	<u>56,929</u>	<u>23,563,057</u>
 <b>Less Accumulated Depreciation</b>				
Source of Supply	(1,181,932)	(43,656)	-	(1,225,588)
Water Treatment Plant	(3,671,156)	(108,831)	13,410	(3,766,577)
Distribution System	(8,228,091)	(326,419)	43,519	(8,510,991)
Transportation Equipment	(694,352)	(29,324)	-	(723,676)
Office Furniture & Equipment	(214,535)	(16,586)	-	(231,121)
Other Equipment	(1,195,554)	(59,730)	-	(1,255,284)
<b>Less Accumulated Depreciation</b>	<u>(15,185,620)</u>	<u>(584,546)</u>	<u>56,929</u>	<u>(15,713,236)</u>
 <b>Total Capital Assets Being Depreciated, Net</b>	<u>7,815,976</u>	<u>33,844</u>	<u>-</u>	<u>7,849,821</u>
 <b>Total Capital Assets, net</b>	<u>\$ 9,995,950</u>	<u>\$ 526,671</u>	<u>\$ -</u>	<u>\$ 10,522,622</u>

SCIOTO COUNTY REGIONAL WATER DISTRICT #1  
SCIOTO COUNTY

Notes to the Basic Financial Statements  
For the Year Ended December 31, 2017  
(Continued)

**NOTE 5 - DEBT OBLIGATIONS**

A schedule of changes in bonds and other long-term obligations of the District during 2017, follows:

	Amount Outstanding 12/31/16	Additions	Deletions	Amount Outstanding 12/31/17	Amounts Due in One Year
Water System Revenue Refunding & Improvement Bonds (2011)	\$1,880,000	\$ -	\$ 90,000	\$1,790,000	\$ 95,000
OPWC Loans 1999-2013 (0.00%)	250,273	-	33,802	216,471	33,803
Compensated Absences	232,864	26,187	-	259,051	111,888
Net Pension Liability	2,049,798	762,171	-	2,811,970	-
<b>Total</b>	<u>\$4,412,935</u>	<u>\$ 788,358</u>	<u>\$ 123,802</u>	<u>\$5,077,492</u>	<u>\$ 240,691</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%-5.63%. 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, 2017 are as follows:

Year Ending	Improvement Bonds		OPWC Loans		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2018	\$ 95,000	\$ 90,700	\$ 33,803	\$ -	\$ 128,803	\$ 90,700
2019	95,000	87,138	27,775	-	122,775	87,138
2020	100,000	83,338	27,774	-	127,774	83,338
2021	105,000	82,069	22,213	-	127,213	82,069
2022	110,000	77,344	15,141	-	125,141	77,344
2023-2027	640,000	294,313	64,765	-	704,764	294,313
2028-2031	645,000	94,500	25,000	-	670,000	94,500
	<u>\$ 1,790,000</u>	<u>\$ 809,402</u>	<u>\$216,471</u>	<u>\$ -</u>	<u>\$ 2,006,470</u>	<u>\$809,402</u>

SCIOTO COUNTY REGIONAL WATER DISTRICT #1  
SCIOTO COUNTY

Notes to the Basic Financial Statements  
For the Year Ended December 31, 2017  
(Continued)

**NOTE 6 - LEASE**

The District entered into an agreement to lease a copier during fiscal year 2015. The terms of the Agreement provides 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 in 2015 by the lease has been capitalized in the statement of net position in the amount of \$23,199 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 position. Principal payments in fiscal year 2017 totaled \$4,639.

The asset acquired through the capital lease is as follows:

	Amount Outstanding 12/31/16	Additions	Deletions	Amount Outstanding 12/31/17	Due In One Year
Xerox Copier (2015)	\$ 4,514	\$ -	\$ 1,128	\$ 3,385	\$1,129
Xerox Copier (2015)	14,045	-	3,511	10,534	3,511
	<u>\$ 18,559</u>	<u>\$ -</u>	<u>\$ 4,639</u>	<u>\$13,919</u>	<u>\$4,640</u>

The following is a schedule of the future long-term minimum lease payments required under the capital leases and the present value of the minimum lease payments as of December 31, 2017:

Year December 31	Ending Xerox Leases
2018	\$ 4,640
2019	4,640
2020	4,639
Total Lease Payments	<u>\$ 13,919</u>

SCIOTO COUNTY REGIONAL WATER DISTRICT #1  
SCIOTO COUNTY

Notes to the Basic Financial Statements  
For the Year Ended December 31, 2017  
(Continued)

**NOTE 7 – INSURANCE AND 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. The Water District maintains insurance coverage for bodily injury, personal injury, general liability, boiler and machinery coverage and fleet (automotive) insurance in addition to professional liability coverage for officers and board members. In 2017, the Water District had coverage through Tokio Marine/HCC Public Risk. There has been no significant reduction in insurance coverages from coverages in the prior year.

In addition, the District has a Cyber Liability policy through Lloyds/CFC Underwriting Ltd to cover losses related to Cyber Incident Response, Cyber Crime, System Damage and Business Interruption, Network Security Liability, Media Liability, Technology Errors and Omissions, and Court Attendance Costs.

Workers' Compensation claims are covered through the District's participation in the State of Ohio's program. The District pays the State Workers' Compensation System a premium based upon a rate established by the State on an annual basis. The rate is determined based on accident history and administrative costs.

The District has elected to provide a health and life insurance plan for the District's full-time employees through Federated Insurance Group Health Plan. It relies on a Cigna Network. The District also provides employees with a Health Savings Plan to supplement for the cost of a high-deductible health plan.

**NOTE 8– POSTEMPLOYMENT 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 trust, which funds multiple health care plans including medical coverage, prescription drug coverage and deposits to a Health Reimbursement Arrangement to qualifying benefit recipients of both the Traditional Pension and the Combined plans. This trust is also used to fund health care for Member Directed Plan participants, in the form of a Retiree Medical Account (RMA). At retirement or refund, Member-Directed Plan participants may be eligible for reimbursement of qualified medical expenses from their vested RMA balance.

In order to qualify for health care coverage, age-and-service retirees under the Traditional Pension and Combined plans must have 20 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. Please see the Plan Statement in the OPERS 2016 CAFR for details.

The Ohio Revised Code permits, but does not require, OPERS to provide health care to its eligible benefit recipients. Authority to establish and amend health care coverage is provided to the OPERS Board of Trustees (OPERS Board) 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, 2017  
(Continued)

**NOTE 8 – POSTEMPLOYMENT BENEFITS (Continued)**

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

Funding Policy

The Ohio Revised Code provides the statutory authority requiring public employers to fund health care through their contributions to OPERS. A portion of each employer's contribution to OPERS may be set aside to fund OPERS health care plans.

Employer contribution rates are expressed as a percentage of the earnable salary of active members. In 2017, State and Local employers contributed at a rate of 14.0% of earnable salary and Public Safety and Law Enforcement employers contributed at 18.1%. These are the maximum employer contribution rates permitted by the Ohio Revised Code. Active member contributions do not fund health care.

Each year, the OPERS Board determines the portion of the employer contribution rate that will be set aside to fund health care plans. The portion of employer contributions allocated to health care for members in the Traditional Pension Plan and Combined Plan was 1.0% during calendar year 2017. As recommended by OPERS' actuary, the portion of employer contributions allocated to health care beginning January 1, 2018 decreased to 0.0% for both plans. The OPERS Board is also authorized to establish rules for the retiree or their surviving beneficiaries to pay a portion of the health care provided. Payment amounts vary depending on the number of covered dependents and the coverage selected. The employer contribution as a percentage of covered payroll deposited for Member-Directed Plan participants for 2017 was 4.0%.

Information from employer's records

The District's contributions allocated to fund post employments health care benefits for the year ended December 31, 2017 was \$32,016.

**NOTE 9 - 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, 2017, the total vested liability for accumulated unpaid vacation, sick leave and compensatory time recorded was \$259,051.

SCIOTO COUNTY REGIONAL WATER DISTRICT #1  
SCIOTO COUNTY

Notes to the Basic Financial Statements  
For the Year Ended December 31, 2017  
(Continued)

**NOTE 10 – DEFINED BENEFIT PENSION PLANS**

***Net Pension Liability***

The net pension liability reported on the statement of net position represents a liability to employees for pensions. Pensions are a component of exchange transactions between an employer and its employees of salaries and benefits for employee services. Pensions are provided to an employee on a deferred-payment basis as part of the total compensation package offered by an employer for employee services each financial period. The obligation to sacrifice resources for pensions is a present obligation because it was created as a result of employment exchanges that already have occurred.

The net pension liability represents the District's proportionate share of each pension plan's collective actuarial present value of projected benefit payments attributable to past periods of service, net of each pension plan's fiduciary net position. The net pension liability calculation is dependent on critical long-term variables, including estimated average life expectancies, earnings on investments, cost of living adjustments and others. While these estimates use the best information available, unknowable future events require adjusting this estimate annually.

Ohio Revised Code limits the District's obligation for this liability to annually required payments. The District cannot control benefit terms or the manner in which pensions are financed; however, the District does receive the benefit of employees' services in exchange for compensation including pension.

GASB 68 assumes the liability is solely the obligation of the employer, because (1) they benefit from employee services; and (2) State statute requires all funding to come from these employers. All contributions to date have come solely from these employers (which also includes costs paid in the form of withholdings from employees). State statute requires the pension plans to amortize unfunded liabilities within 30 years. If the amortization period exceeds 30 years, each pension plan's board must propose corrective action to the State legislature. Any resulting legislative change to benefits or funding could significantly affect the net pension liability. Resulting adjustments to the net pension liability would be effective when the changes are legally enforceable.

The proportionate share of each plan's unfunded benefits is presented as a long-term *net pension liability* on the accrual basis of accounting. Any liability for the contractually-required pension contribution outstanding at the end of the year is included in *intergovernmental payable* on both the accrual and modified accrual bases of accounting.

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

Plan Description - District employees participate in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans. The traditional pension plan is a cost-sharing, multiple-employer defined benefit pension plan. The member-directed plan is a defined contribution plan and the combined plan is a cost-sharing, multiple-employer defined benefit pension plan with defined contribution features. While members (e.g. District employees) may elect the member-directed plan and the combined plan, all employee members are in OPERS' traditional plan; therefore, the following disclosure focuses on the traditional pension plan.

OPERS provides retirement, disability, survivor and death benefits, and annual cost of living adjustments to members of the traditional plan. District to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report that includes financial statements, required supplementary information and detailed information about OPERS' fiduciary net position that may be obtained by visiting <https://www.opers.org/financial/reports.shtml>, by writing to the Ohio Public



SCIOTO COUNTY REGIONAL WATER DISTRICT #1  
SCIOTO COUNTY

Notes to the Basic Financial Statements  
For the Year Ended December 31, 2017  
(Continued)

**NOTE 10 – DEFINED BENEFIT PENSION PLANS (Continued)**

Employees Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642, or by calling 800-222-7377.

Senate Bill (SB) 343 was enacted into law with an effective date of January 7, 2013. In the legislation, members were categorized into three groups with varying provisions of the law applicable to each group. The following table provides age and service requirements for retirement and the retirement formula applied to final average salary (FAS) for the three member groups under the traditional plan as per the reduced benefits adopted by SB 343 (see OPERS CAFR referenced above for additional information):

<b>Group A</b>	<b>Group B</b>	<b>Group C</b>
Eligible to retire prior to January 7, 2013 or five years after January 7, 2013	20 years of service credit prior to January 7, 2013 or eligible to retire ten years after January 7, 2013	Members not in other Groups and members hired on or after January 7, 2013
<b>State and Local</b>	<b>State and Local</b>	<b>State and Local</b>
<b>Age and Service Requirements:</b> Age 60 w ith 60 months of service credit or Age 55 w ith 25 years of service credit	<b>Age and Service Requirements:</b> Age 60 w ith 60 months of service credit or Age 55 w ith 25 years of service credit	<b>Age and Service Requirements:</b> Age 57 w ith 25 years of service credit or Age 62 w ith 5 years of service credit
<b>Formula:</b> 2.2% of FAS multiplied by years of service for the first 30 years and 2.5% for service years in excess of 30	<b>Formula:</b> 2.2% of FAS multiplied by years of service for the first 30 years and 2.5% for service years in excess of 30	<b>Formula:</b> 2.2% of FAS multiplied by years of service for the first 35 years and 2.5% for service years in excess of 35

Final average Salary (FAS) represents the average of the three highest years of earnings over a member’s career for Groups A and B. Group C is based on the average of the five highest years of earnings over a member’s career.

Members who retire before meeting the age and years of service credit requirement for unreduced benefits receive a percentage reduction in the benefit amount.

When a benefit recipient has received benefits for 12 months, an annual cost of living adjustment (COLA) is provided. This COLA is calculated on the base retirement benefit at the date of retirement and is not compounded. For those retiring prior to January 7, 2013, the COLA will continue to be a 3 percent simple annual COLA. For those retiring subsequent to January 7, 2013, beginning in calendar year 2019, the COLA will be based on the average percentage increase in the Consumer Price Index, capped at 3 percent.

SCIOTO COUNTY REGIONAL WATER DISTRICT #1  
SCIOTO COUNTY

Notes to the Basic Financial Statements  
For the Year Ended December 31, 2017  
(Continued)

**NOTE 10 – DEFINED BENEFIT PENSION PLANS (Continued)**

Funding Policy - The Ohio Revised Code (ORC) provides statutory authority for member and employer contributions as follows:

	State and Local
<b>2017 Statutory Maximum Contribution Rates</b>	
Employer	14.0 %
Employee	10.0 %
 <b>2017 Actual Contribution Rates</b>	
Employer:	
Pension	13.0 %
Post-employment Health Care Benefits	1.0
 Total Employer	 14.0 %
 Employee	 10.0 %

Employer contribution rates are actuarially determined and are expressed as a percentage of covered payroll.

The District's contractually required contribution to the Traditional plan was \$209,017 for the year ended December 31, 2017. Of this amount, \$27,768 is included in intergovernmental payable.

***Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions***

The net pension liability was measured as of December 31, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on the District's share of contributions to the pension plan relative to the contributions of all participating entities. Following is information related to the proportionate share and pension expense:

	Traditional Plan
Proportionate Share of the Net Pension Liability	\$ 2,811,970
Proportion of the Net Pension Liability	0.012383%
Pension Expense	\$ 627,869
Change in Proportionate Share	0.0549%

SCIOTO COUNTY REGIONAL WATER DISTRICT #1  
SCIOTO COUNTY

Notes to the Basic Financial Statements  
For the Year Ended December 31, 2017  
(Continued)

**NOTE 10 – DEFINED BENEFIT PENSION PLANS (Continued)**

At June 30, 2017, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows	Deferred Inflows
<b>Deferred Outflows of Resources</b>		
Differences between expected and actual experience	\$ 3,811	\$ 16,735
Net difference between projected and actual earnings on pension plan investments	418,767	-
Changes in assumptions	446,013	-
Changes in proportion and differences between contributions and proportionate share of contributions	57,339	-
Authority contributions subsequent to the measurement date	<u>209,017</u>	<u>-</u>
Total Deferred Resources	<u>\$ 1,134,947</u>	<u>\$ 16,735</u>

\$209,017 reported as deferred outflows of resources related to pension resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending December 31, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

Year Ending December 31:

2018	\$ 382,909
2019	387,785
2020	150,776
2021	<u>(12,275)</u>
Total	<u>\$ 909,195</u>

SCIOTO COUNTY REGIONAL WATER DISTRICT #1  
SCIOTO COUNTY

Notes to the Basic Financial Statements  
For the Year Ended December 31, 2017  
(Continued)

**NOTE 10 – DEFINED BENEFIT PENSION PLANS (Continued)**

***Actuarial Assumptions - OPERS***

Actuarial valuations of an ongoing plan involve estimates of the values of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and cost trends. Actuarially determined amounts are subject to continual review or modification as actual results are compared with past expectations and new estimates are made about the future.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employers and plan members) and include the types of benefits provided at the time of each valuation. The total pension liability in the December 31, 2016, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Wage Inflation	3.25 percent
Future Salary Increases, including inflation COLA or Ad Hoc COLA	3.25 to 10.75 percent including wage inflation Pre 1/7/2013 retirees: 3 percent, simple; Post 1/7/2013 retirees: 3 percent, simple through 2018, then 2.15 percent, simple
Investment Rate of Return	7.5 percent
Actuarial Cost Method	Individual Entry Age

Mortality rates were based on the RP-2014 Healthy Annuitant mortality table. For males, Healthy Annuitant Mortality tables were used, adjusted for mortality improvement back to the observation period base of 2006 and then established the base year as 2015. For females, Healthy Annuitant Mortality tables were used, adjusted for mortality improvements back to the observation period base year of 2006 and then established the base year as 2010. The mortality rates used in evaluating disability allowances were based on the RP-2014 Disabled mortality tables, adjusted for mortality improvement back to the observation base year of 2006 and then established the base year as 2015 for males and 2010 for females. Mortality rates for a particular calendar year for both healthy and disabled retiree mortality tables are determined by applying the MP-2015 mortality improvement scale to the above described tables.

The most recent experience study was completed for the five year period ended December 31, 2015.

The long-term rate of return on defined benefit investment assets was determined using a building-block method in which best-estimate ranges of expected future real rates of return are developed for each major asset class. These ranges are combined to produce the long-term expected real rate of return by weighting the expected future real rates of return by the target asset allocation percentage, adjusted for inflation.

OPERS manages investments in four investment portfolios: the Defined Benefits portfolio, the 401(h) Health Care Trust portfolio, the 115 Health Care Trust portfolio and the Defined Contribution portfolio. The 401(h) Health Care Trust portfolio was closed as of June 30, 2016 and the net position transferred to the 115 Health Care Trust portfolio on July 1, 2016. The Defined Benefit portfolio contains the investment assets of the Traditional Pension Plan, the defined benefit component of the Combined Plan, the annuitized accounts of the Member-Directed Plan. The Defined Benefit portfolio historically included the assets of the Member-Directed retiree medical accounts funded through the VEBA Trust. However, the VEBA Trust was closed as of June 30, 2016 and the net position transferred to the 115 Health Care Trust portfolio on July 1, 2016. Within the

SCIOTO COUNTY REGIONAL WATER DISTRICT #1  
SCIOTO COUNTY

Notes to the Basic Financial Statements  
For the Year Ended December 31, 2017  
(Continued)

**NOTE 10 – DEFINED BENEFIT PENSION PLANS (Continued)**

Defined Benefit portfolio, contributions into the plans are all recorded at the same time, and benefit payments all occur on the first of the month. Accordingly, the money-weighted rate of return is considered to be the same for all plans within the portfolio. The annual money-weighted rate of return expressing investment performance, net of investment expenses and adjusted for the changing amounts actually invested, for the Defined Benefit portfolio is 8.3% for 2016.

The allocation of investment assets with the Defined Benefit portfolio is approved by the Board of Trustees as outlined in the annual investment plan. Plan assets are managed on a total return basis with a long-term objective of achieving and maintaining a fully funded status for the benefits provided through the defined benefit pension plans. The table below displays the Board-approved asset allocation policy for 2016 and the long-term expected real rates of return:

Asset Class	Target Allocation	Weighted Average Long-Term Expected Real Rate of Return (Arithmetic)
Fixed Income	23.00 %	2.75 %
Domestic Equities	20.70	6.34
Real Estate	10.00	4.75
Private Equity	10.00	8.97
International Equities	18.30	7.95
Other investments	18.00	4.92
<b>Total</b>	<b>100.00 %</b>	<b>5.66 %</b>

**Discount Rate** The discount rate used to measure the total pension liability was 7.5 percent. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and those of the contributing employers are made at the statutorily required rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefits payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

**Sensitivity of the District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate** The following table presents the District's proportionate share of the net pension liability calculated using the current period discount rate assumption of 7.5 percent, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one-percentage-point lower (6.5 percent) or one-percentage-point higher (8.5 percent) than the current rate:

District's Proportionate Share of the Net Pension Liability	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.5%)
Traditional Plan	\$ 4,295,910	\$ 2,811,970	\$ 1,575,365

SCIOTO COUNTY REGIONAL WATER DISTRICT #1  
SCIOTO COUNTY

Notes to the Basic Financial Statements  
For the Year Ended December 31, 2017  
(Continued)

**NOTE 10 – DEFINED BENEFIT PENSION PLANS (Continued)**

***Changes in Assumptions from Prior Measurement Date*** In 2016, the Board's actuarial consultants conducted an experience study for the period 2011 through 2015, comparing assumptions to actual results. The experience study incorporates both a historical review and forward-looking projections to determine the appropriate set of assumptions to keep the plan on a path toward full funding. Information from this study led to changes in both demographic and economic assumptions, with the most notable being a reduction in the actuarially assumed rate of return from 8.0% down to 7.5%, for the defined benefit investments. Additional changes in assumptions include a reduction of the wage inflation rate from 3.75% to 3.25% and a change to the mortality tables.

**NOTE 11 – CONTINGENCIES**

**Litigation**

The District is not involved in legal proceedings.

**SCIOTO COUNTY REGIONAL WATER DISTRICT #1  
SCIOTO COUNTY  
DECEMBER 31, 2017**

REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY  
LAST TEN FISCAL YEARS

**Public Employees' Retirement System**

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
District's Proportion of the Net Pension Liability	0.012383%	0.011834%	0.011584%	0.011584%
District's Proportionate Share of the Net Pension Liability	\$ 2,811,969	\$ 2,049,798	\$ 1,397,160	\$ 1,365,603
District's Covered Payroll	\$ 1,607,824	\$ 1,472,893	\$ 1,424,908	\$ 1,329,400
District's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	174.89%	139.17%	98.05%	102.72%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	77.25%	81.08%	86.45%	86.36%

Information prior to 2013 is not available

**SCIOTO COUNTY REGIONAL WATER DISTRICT #1  
SCIOTO COUNTY  
FOR THE YEAR ENDED DECEMBER 31, 2017**

**REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF CONTRIBUTIONS  
LAST TEN FISCAL YEARS**

**Public Employees' Retirement System**

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Contractually Required Contributions	\$ 209,017	\$ 192,093	\$ 176,747	\$ 170,989	\$ 172,810
Contributions in Relation to the Contractually Required Contribution	\$ <u>(209,017)</u>	\$ <u>(192,093)</u>	\$ <u>(176,747)</u>	\$ <u>(170,989)</u>	\$ <u>(172,810)</u>
Contribution Deficiency (Excess)	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>
District Covered Payroll	\$ 1,607,824	\$ 1,600,774	\$ 1,472,892	\$ 1,424,908	\$ 1,329,308
Contributions as a Percentage of Covered Payroll	13.00%	12.00%	12.00%	12.00%	13.00%

This schedule will be built prospectively



**SCIOTO COUNTY REGIONAL WATER DISTRICT NO. 1  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2016  
(Unaudited)**

Our discussion and analysis of the Scioto County Regional Water District #1 financial performance provides an overview of the District's financial activities for the year ended December 31, 2016. 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 to those statements.

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 District. 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) Net Investment in Capital Assets 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* includes a summary of the cash flows from operations, capital and related financing 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.

## **SCIOTO COUNTY REGIONAL WATER DISTRICT NO. 1 MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)**

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### **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, liabilities, deferred outflows and deferred inflows with the difference between the two reported as net position. Net position is displayed in three categories:

- Net Investment in Capital Assets
- 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 Revenue, 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.

*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.

## **SCIOTO COUNTY REGIONAL WATER DISTRICT NO. 1 MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)**

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During 2015, the District adopted GASB Statement 68, "Accounting and Financial Reporting for Pensions—an Amendment of GASB Statement 27," which significantly revises accounting for pension costs and liabilities. For reasons discussed below, many end users of this financial statement will gain a clearer understanding of the District's actual financial condition by adding deferred inflows related to pension and the net pension liability to the reported net position and subtracting deferred outflows related to pension.

Governmental Accounting Standards Board standards are national and apply to all government financial reports prepared in accordance with generally accepted accounting principles. When accounting for pension costs, GASB 27 focused on a funding approach. This approach limited pension costs to contributions annually required by law, which may or may not be sufficient to fully fund each plan's *net pension liability*. GASB 68 takes an earnings approach to pension accounting; however, the nature of Ohio's statewide pension systems and state law governing those systems requires additional explanation in order to properly understand the information presented in these statements.

Under the new standards required by GASB 68, the net pension liability equals the District's proportionate share of each plan's collective:

1. Present value of estimated future pension benefits attributable to active and inactive employees' past service
- 2 Minus plan Position available to pay these benefits

GASB notes that pension obligations, whether funded or unfunded, are part of the "employment exchange" – that is, the employee is trading his or her labor in exchange for wages, benefits, and the promise of a future pension. GASB noted that the unfunded portion of this pension promise is a present obligation of the government, part of a bargained-for benefit to the employee, and should accordingly be reported by the government as a liability since they received the benefit of the exchange. However, the District is not responsible for certain key factors affecting the balance of this liability. In Ohio, the employee shares the obligation of funding pension benefits with the employer. Both employer and employee contribution rates are capped by State statute. A change in these caps requires action of both Houses of the General Assembly and approval of the Governor. Benefit provisions are also determined by State statute. The employee enters the employment exchange with the knowledge that the employer's promise is limited not by contract but by law. The employer enters the exchange also knowing that there is a specific, legal limit to its contribution to the pension system. In Ohio, there is no legal means to enforce the unfunded liability of the pension system *as against the public employer*. State law operates to mitigate/lessen the moral obligation of the public employer to the employee, because all parties enter the employment exchange with notice as to the law. The pension system is responsible for the administration of the plan.

**SCIOTO COUNTY REGIONAL WATER DISTRICT NO. 1  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)**

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Most long-term liabilities have set repayment schedules or, in the case of compensated absences (i.e. sick and vacation leave), are satisfied through paid time-off or termination payments. There is no repayment schedule for the net pension liability. As explained above, changes in pension benefits, contribution rates, and return on investments affect the balance of the net pension liability, but are outside the control of the local government. In the event that contributions, investment returns, and other changes are insufficient to keep up with required pension payments, State statute does not assign/identify the responsible party for the unfunded portion. Due to the unique nature of how the net pension liability is satisfied, this liability is separately identified within the long-term liability section of the statement of net position.

In accordance with GASB 68, the District's statements prepared on an accrual basis of accounting include an annual pension expense for their proportionate share of each plan's *change* in net pension liability not accounted for as deferred inflows/outflows.

As a result of implementing GASB 68, the District is reporting a net pension liability and deferred inflows/outflows of resources related to pension on the accrual basis of accounting. This implementation also had the effect of restating net position at December, 2014.

**Financial Highlights**

During the year ending December 31, 2016, the District's operating revenues were over \$4.53 million. Operating expenses were \$3.8 million resulting in \$724,260 gain from operations. There were no rate increases in 2016, so revenues remained stable and very similar to the previous year.

During 2016, the sale of bulk water was a significant source of revenue totaling \$736,745. This was a decrease from the previous year. Although we continue to be a back-up source for Southern Ohio Correctional Facility, they did not use our services during 2016.

Several projects in the plant and distribution departments were completed in 2016. Plant projects included the Haystack Tank, Well Vents, and the Lagoon Road Project. Distribution projects included completion of the Minford Distribution Facility, SR 139 main line move, and work on the line relocations required by the ODOT Bypass State Route 823 along with various other line replacement projects throughout the system.

We are continuing the GIS Project and are in the final phase of the project. The office upgraded to a new administrative version of software, and we are beginning the development of an electronic work order system which will combine our data from the GIS System and our Utility Billing system to push information to the workers in the field. This new system is called Workforce and will be operational in 2017. We are also working towards having hydrology modeling of our water system and pushing real time data to the field.

**SCIOTO COUNTY REGIONAL WATER DISTRICT NO. 1  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)**

**Financial Analysis of the District**

**Net Position** - The District's net position between fiscal years 2015 and 2016 increased from \$10,626,862 to \$11,274,821. This is an increase of \$647,959.

Net position represents the difference between all other elements of the statement of financial position. Net invested in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvements of those assets.

**Table 1  
Net Position**

<b>Assets</b>	<b>2016</b>	<b>2015 (Restated)</b>	<b>Increase (Decrease)</b>
Total Current Assets	\$ 4,881,672	\$ 4,637,049	\$ 244,623
Total Capital Assets	9,995,950	9,501,523	494,427
Total Non-Current Assets	10,248,960	9,750,349	498,611
<i>Total Assets</i>	<u>15,130,632</u>	<u>14,387,398</u>	<u>743,234</u>
<b>Deferred Outflows of Resources</b>			
Deferred Charge on Debt	30,666	38,333	(7,667)
Deferred Pension Related	814,499	251,295	563,204
<b>Liabilities</b>			
Total Current Liabilities	470,907	387,756	83,150
Total Noncurrent Liabilities	4,190,463	3,637,869	552,594
<i>Total Liabilities</i>	<u>4,661,370</u>	<u>4,025,625</u>	<u>635,744</u>
<b>Deferred Inflows of Resources</b>			
Pension	39,606	24,545	15,061
<b>Net Investment in Capital Assets</b>			
Invested in capital assets	7,877,784	7,258,422	619,362
Restricted for Other Purposes	253,010	248,826	4,184
Unrestricted	3,144,027	3,119,614	24,413
<i>Total Net Position</i>	<u>\$ 11,274,821</u>	<u>\$ 10,626,862</u>	<u>\$ 647,959</u>

**SCIOTO COUNTY REGIONAL WATER DISTRICT NO. 1  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)**

**Change in Net Position** – The District's operating revenue was \$4,534,029; operating expenses remained stable with a slight increase of \$11,951.

In fiscal year 2016, 99% of the District's operating revenues came from water and tap sales with \$736,745 coming from bulk customers. In addition, Water Tap Sales were \$48,800 resulting in a Change in Net Position of \$647,959. Overall, revenues and expenses remained stable.

**Table 2  
Changes in Net Position**

	2016	2015	Increase (Decrease)
<b>Operating Revenues</b>			
Water Sales	\$ 4,094,838	\$ 4,211,464	\$ (116,626)
Water Tap Sales	48,800	33,041	15,759
Lab Test Fees	2,400	2,688	(288)
Miscellaneous	387,991	49,076	338,916
<b>Non-Operating Revenues</b>			
Gain/Loss on Sale of Asset	5,585	44,266	(38,681)
Interest Income	16,163	8,356	7,807
<i>Total Revenues</i>	<u>4,555,777</u>	<u>4,348,892</u>	<u>206,886</u>
<b>Operating Expenses</b>			
Supply and Treatment	1,343,845	1,293,072	50,773
Distribution	1,166,193	927,389	238,804
Administration, Billing, and Office	893,218	792,513	100,705
Board Expenses	13,386	12,798	588
Depreciation Expenses	393,127	569,773	(176,646)
<b>Non-Operating Expenses</b>			
Interest Expense	98,417	100,871	(2,454)
<i>Total Expenses</i>	<u>3,908,186</u>	<u>3,702,176</u>	<u>206,010</u>
<i>Income Before Contributions</i>	647,591	652,475	(4,884)
Total Capital Contributions	368	95,345	(94,977)
Change in Net Position	647,959	747,820	(99,861)
<i>Net Position Beginning of Year (Restated)</i>	<u>10,626,862</u>	<u>9,879,042</u>	<u>747,820</u>
<i>Net Position End of Year</i>	<u>\$ 11,274,821</u>	<u>\$ 10,626,862</u>	<u>\$ 647,959</u>

**SCIOTO COUNTY REGIONAL WATER DISTRICT NO. 1  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)**

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**Capital Position**

As of December 31, 2016, the District had invested over \$9.9 million in capital assets. This amount represents a net increase of \$494,426 over the prior year. The greatest increase to capital assets were projects in the District's distribution system. Construction in Progress decreased by \$65,717 with the completion of the Minford Distribution Garage and other projects. More detailed information about the District's capital Position is presented in Note 4 to the basic financial statements.

**Table 3  
Capital Assets**

---

	<b>2016</b>		<b>2015</b>
Land	\$ 903,073	\$	888,393
Construction and Assets in Progress	1,276,900		1,342,617
Source of Supply	1,697,920		1,542,995
Water Treatment Plant	4,895,781		4,823,487
Distribution System	13,705,602		13,126,524
Transportation Equipment	791,459		742,764
Office Furniture and Equipment	307,363		257,380
Other Equipment	1,603,471		1,569,856
Less: Accumulated Depreciation	(15,185,619)		(14,792,493)
Totals	<u>\$ 9,995,950</u>	<u>\$</u>	<u>9,501,524</u>

**Budget Analysis**

The District exceeded the budgeted revenue for 2016 by \$220,643. Total receipts collected were over \$4.55 million. The District's expenses came in under budget by approximately \$122,514. The District expenses for 2016 totaled \$3,908,186.

**Debt Administration**

At December 31, 2016, the District had \$1,880,000 in bonds payable. The total OPWC debt is \$250,273. More detailed information about the District's long-term debt is presented in Note 5 to the Basic Financial Statements.

**SCIOTO COUNTY REGIONAL WATER DISTRICT NO. 1  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)**

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**Economic Factors**

The District's financial condition remains stable as upgrades and improvements to the system are completed. Additional money for capital improvement was obtained through a bond renewal in 2011, giving the district funds to complete/begin several important operational projects. A new water tank has been installed at the Haystack site, and expansion of the Well Field is currently in progress. District expenses have been managed well and remained stable. Revenue plateaued in 2016 with the last rate increase being effective on January 1, 2013. The local economic conditions continue to challenge the district with customer delinquency, water theft, and foreclosures. However, the District did see an increase in Tap Sales during 2016 which is a promising indicator. Construction on the SR 823 Bypass has also increased usage. This project will continue through 2018.

**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 the 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, 2016**

	<b>2016</b>
<b>ASSETS:</b>	
Current Assets:	
Cash and Cash Equivalents	\$ 3,958,852
Accounts Receivable	709,246
Deposits	3,750
Inventories	172,067
Prepaid Expenses	37,757
Total Current Assets	4,881,672
Noncurrent Assets:	
Restricted Assets:	
Investments	253,010
Capital Assets:	
Non-Depreciable Capital Assets	2,179,974
Depreciable Capital Assets, Net of Depreciation	7,815,976
Total Capital Assets	9,995,950
Total Noncurrent Assets	10,248,960
TOTAL ASSETS	15,130,632
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	
Deferred Charge on Debt	30,666
Pension	814,499
TOTAL DEFERRED OUTFLOWS OF RESOURCES	845,165
TOTAL ASSETS AND DEFERRED OUTFLOWS	\$ 15,975,797
<b>LIABILITIES AND EQUITY:</b>	
Current Liabilities:	
Accounts Payable	\$ 114,864
Accrued Wages	54,313
Employee Withholding Payable	30,099
Unset Water Taps Payable	27,150
Compensated Absences Payable	112,588
Customer Deposits	3,450
Current Bonds Payable	90,000
Current OPWC Payable	33,803
Current Capital Lease Payable	4,640
Total Current Liabilities	470,907
Noncurrent Liabilities:	
Long Term Compensated Absences Payable	120,276
Capital Lease Payable	13,919
OPWC Loan Payable	216,470
Net Pension Liability	2,049,798
Revenue Bonds Payable	1,790,000
Total Noncurrent Liabilities	4,190,463
TOTAL LIABILITIES	4,661,370
<b>DEFERRED INFLOWS OF RESOURCES</b>	
Pension	39,606
TOTAL DEFERRED INFLOWS OF RESOURCES	39,606
Net Position:	
Net Investment in Capital Assets	7,877,784
Restricted for:	
Debt Service	253,010
Unrestricted	3,144,027
Total Net Position	11,274,821
TOTAL LIABILITIES, DEFERRED INFLOWS AND NET POSITION	\$ 15,975,797

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, 2016**

	<b>2016</b>
<b>Operating Revenues:</b>	
Water Sales	\$ 4,094,838
Water Tap Sales	48,800
Lab Test Fees	2,400
Miscellaneous	387,991
Total Operating Revenues	4,534,029
<b>Operating Expenses:</b>	
Supply and Treatment	1,343,845
Distribution	1,166,193
Administration, Billing, and Office	893,218
Board Expenses	13,386
Depreciation Expense	393,127
Total Operating Expenses	3,809,769
Operating Income/(Loss)	724,260
<b>Non-Operating Revenues/(Expenses):</b>	
Gain on Sale of Asset	5,585
Interest Income	16,163
Interest Expense	(98,417)
Total Non-Operating Revenues/(Expenses)	(76,669)
Income before Contributions	647,591
<b>Capital Contributions</b>	
Capital Contributions from Grant	368
Total Capital Contributions	368
Change in Net Position	647,959
Net Position - January 1 (Restated - See Note 14)	10,626,862
<b>Net Position - December 31</b>	<b>\$ 11,274,821</b>

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, 2016**

	<b>2016</b>
<b>Cash Flows from Operating Activities:</b>	
Receipts from Customers	\$ 4,564,862
Receipts from Others	12,487
Payments to Suppliers and Vendors	(972,080)
Payments to Employees	(2,225,323)
	1,379,946
Net Cash Provided by (Used by) Operating Activities	1,379,946
<b>Cash Flows from Capital and Related Financing Activities:</b>	
Principal on Bond	(90,000)
Interest on Bond	(98,417)
OPWC Principal	(33,803)
Capital Lease Principal	(4,640)
Proceeds from Grant Funds	368
Proceeds from Sales of Capital Assets	5,585
Payments for Capital Acquisitions	(887,547)
	(1,108,454)
Net Cash Provided by (Used by) Capital and Related Financing Activities	(1,108,454)
<b>Cash Flows from Investing Activities:</b>	
Interest Earned	16,163
	16,163
Net Cash Provided by (Used by) Investing Activities	16,163
Net Increase/(Decrease) in Cash and Cash Equivalents	287,655
Cash and Cash Equivalents - January 1	3,924,207
	3,924,207
<b>Cash and Cash Equivalents - December 31</b>	<b>4,211,862</b>
<b>Reconciliation of Operating Income to Net Cash Provided by (Used by) Operating Activities:</b>	
Operating Income	724,260
<b>Adjustments:</b>	
Depreciation Expense	393,127
<i>Change in Assets</i>	
(Increase) Decrease in Accounts Receivable	43,321
(Increase) Decrease in Prepaid Items	(464)
(Increase) Decrease in Materials and Supplies Inventory	(4,109)
(Increase) Decrease in Deferred Charges	7,667
(Increase) Decrease in Deposits	100
(Increase) Decrease in Deferred Outflows of Resources - Pensions	(563,204)
<i>Change in Liabilities</i>	
Increase (Decrease) in Accounts Payable	30,648
Increase (Decrease) in Unset Water Taps Payable	(5,460)
Increase (Decrease) in Employee's Withholding Payable	29,391
Increase (Decrease) in Compensated Absences Payable	49,526
Increase (Decrease) in Accrued Wages	7,445
Increase (Decrease) in Net Pension Liability	652,637
Increase (Decrease) in Deferred Inflows of Resources - Pensions	15,061
	15,061
Total Adjustments	655,686
Net Cash Provided by (Used by) Operating Activities	<b>\$ 1,379,946</b>

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, 2016

**NOTE 1 - 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 Regional Water District Number One 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

***Reporting Entity***

A reporting entity is composed of the primary government, component units, and other organizations that are included to ensure the financial statements are not misleading. The primary government consists of all fund, department, board, and agencies that are not legally separate from the District. For Scioto County Regional Water District #1 this includes general operations of the District.

Component units are legally separate organizations for which the District is financially accountable. The District is financially accountable for an organization if the District appoints a voting majority of the organization's governing board and (1) the District is able to significantly influence the programs or services performed or provided by the organization; or (2) the District is legally entitled to or can otherwise access the organization's resources; the District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the District in that the District approves the budget, the issuance of debt, or the levying of taxes. The District has no component units.

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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 more significant of the District's accounting policies are described below.

**Measure Focus and Basis of Accounting**

The District's operations are financed and operated in a manner similar to a 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.

SCIOTO COUNTY REGIONAL WATER DISTRICT #1  
SCIOTO COUNTY

Notes to the Basic Financial Statements  
For the Year Ended December 31, 2016  
(Continued)

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Measure Focus and Basic of Accounting (Continued)**

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 Position. The operating statements present increases (i.e. revenues) and decreases (i.e. expenses) in total net position. The Statement of Cash Flows provides information about how the District finances and meets its cash flow needs.

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.

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.

The District's basic financial statements consist of a Statement of Net Position, a Statement of Revenues, Expenses, and Changes in Net Position, and a Statement of Cash Flows.

For financial reporting, the District uses an enterprise fund presentation. Enterprise fund reporting focuses on the determination of the change in net position, financial position and cash flows. An enterprise fund may be used to account for any activity for which a fee is charged to external users for goods and services.

**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 acquisition 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 & Lines	40 years
Furniture and Office Equipment	10 years

**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.

SCIOTO COUNTY REGIONAL WATER DISTRICT #1  
SCIOTO COUNTY

Notes to the Basic Financial Statements  
For the Year Ended December 31, 2016  
(Continued)

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**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.

**Restricted Assets**

The District is required to keep an account in reserve that is equal to the year with the highest principal and interest total on the bond amortization schedule. This amount is \$189,406. The District is also required to maintain accounts for the principal and interest payments on the bond.

**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.

**Pensions**

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the pension plans and additions to/deductions from their fiduciary net position have been determined on the same basis as they are reported by the pension systems. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. The pension systems report investments at fair value.

**Cash and 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 2016, the District invested in negotiable certificates of deposit, federal agency securities, mutual funds, and Start Ohio. Investments are reported at fair value which is based on quoted market price or current share price. Star Ohio is an investment pool, managed by the State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes. Start Ohio is not registered with the SEC as an investment company but has adopted Governmental Accounting Standards Board Statement No. 79, "Certain External Investment Pools and Pool Participants". The District measures the investment in Star Ohio at the net asset value (NAV) per share provided by Star Ohio. The NAV per share is calculated on an amortized cost basis that provides a NAV that approximates fair value.

For 2016, there were no limitations or restrictions on any participant withdrawals due to redemption notice periods, liquidity fees, or redemption gates. However, notice must be given twenty-four hours in advance of all deposits and withdrawals exceeding \$25 million. Star Ohio reserves the right to limit the transaction to \$50 million requiring the excess amount to be transacted the following business day(s) but only to the \$50 million limit. All accounts of the participant will be combined for this purpose.

SCIOTO COUNTY REGIONAL WATER DISTRICT #1  
SCIOTO COUNTY

Notes to the Basic Financial Statements  
For the Year Ended December 31, 2016  
(Continued)

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**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.

**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 2016 was \$7,667.

**Deferred Outflows/Inflows of Resources**

In addition to assets, the statements of financial position will sometimes report a separate section for deferred outflows of resources. Deferred outflows of resources represent a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until then. For the District, deferred outflows of resources are reported on the statement of net position for pension and deferred debt charges.

In addition to liabilities, the statements of financial position report a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized until that time. For the District, deferred inflows of resources are reported on the statement of net position for pension. The deferred inflows of resources related to pension are explained in Note 11.

**Prepaid Expenses**

Prepaid Expenses are 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 2016 were \$37,757.

SCIOTO COUNTY REGIONAL WATER DISTRICT #1  
SCIOTO COUNTY

Notes to the Basic Financial Statements  
For the Year Ended December 31, 2016  
(Continued)

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**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.

**Net Position**

Net position represents the differences in all other elements of the statement of financial position. 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 and regulations of other governments. Net position restricted for debt service consists of monies and other resources which are restricted to satisfy debt service requirements as specified in debt agreements.

The District applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available.

**Operating Revenues and Expenses**

Operating revenues are those revenues that are generated directly from the primary activities of the District. These revenues consist of certain sales and fees. Operating expenses are necessary costs incurred to provide the goods or services that are the primary activity of the District. Revenues and expenses not meeting this definition are reported as non-operating.

**NOTE 3 - EQUITY IN POOLED CASH AND INVESTMENTS**

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

Active deposits are public deposits necessary to meet current demands on the treasury. Such monies must be maintained either as cash in the District Treasury, in commercial accounts payable or 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.



SCIOTO COUNTY REGIONAL WATER DISTRICT #1  
SCIOTO COUNTY

Notes to the Basic Financial Statements  
For the Year Ended December 31, 2016  
(Continued)

**NOTE 3 - EQUITY IN POOLED CASH AND INVESTMENTS (Continued)**

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 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,
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.

SCIOTO COUNTY REGIONAL WATER DISTRICT #1  
SCIOTO COUNTY

Notes to the Basic Financial Statements  
For the Year Ended December 31, 2016  
(Continued)

**NOTE 3 - EQUITY IN POOLED CASH AND INVESTMENTS (Continued)**

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 \$780,287. Of the bank balance at year end 2016, \$250,000 was covered by federal depository insurance. The remaining balances were 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, 2016:

	Carrying Amount	Fair Value
Star Plus	\$ 3,178,165	\$ 3,178,165
Reserve Bond Trust - Cash Equivalents	189,449	189,449
Reserve Bond Payment - Cash Equivalents	49,685	49,685
Reserve Bond Interest - Cash Equivalents	13,876	13,876
Total Investments	\$ 3,431,175	\$ 3,431,175

The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets. Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. The above chart identifies the District's recurring fair value measurements as of December 31, 2016. All of the District's investments measured at fair value are valued using quoted market prices (Level 1 inputs).

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.

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.

SCIOTO COUNTY REGIONAL WATER DISTRICT #1  
SCIOTO COUNTY

Notes to the Basic Financial Statements  
For the Year Ended December 31, 2016  
(Continued)

**NOTE 4 – CAPITAL ASSETS**

A summary of the District's capital assets as of December 31, 2016, are as follows:

	2015	Additions	Deletions	2016
<b>Capital Assets, Not Being Depreciated</b>				
Land	\$ 888,393	\$ 14,690	\$ 11	\$ 903,072
Construction in Progress	1,342,618	1,110,016	1,175,732	1,276,902
<b>Total Capital Assets, Not Being Depreciated</b>	<u>2,231,011</u>	<u>1,124,706</u>	<u>1,175,743</u>	<u>2,179,974</u>
<b>Capital Assets Being Depreciated</b>				
Source of Supply	1,542,995	154,925	-	1,697,920
Water Treatment Plant	4,823,487	72,294	-	4,895,781
Distribution System	13,126,524	579,078	-	13,705,602
Transportation Equipment	742,764	48,695	-	791,459
Office Furniture & Equipment	257,380	49,983	-	307,363
Other Equipment	1,569,856	33,615	-	1,603,471
<b>Total Capital Assets Being Depreciated</b>	<u>22,063,006</u>	<u>938,590</u>	<u>-</u>	<u>23,001,596</u>
<b>Less Accumulated Depreciation</b>				
Source of Supply	(1,160,320)	(21,612)	-	(1,181,932)
Water Treatment Plant	(3,600,753)	(70,403)	-	(3,671,156)
Distribution System	(8,027,323)	(200,768)	-	(8,228,091)
Transportation Equipment	(665,858)	(28,494)	-	(694,352)
Office Furniture & Equipment	(199,841)	(14,694)	-	(214,535)
Other Equipment	(1,138,398)	(57,156)	-	(1,195,554)
<b>Less Accumulated Depreciation</b>	<u>(14,792,493)</u>	<u>(393,127)</u>	<u>-</u>	<u>(15,185,620)</u>
<b>Total Capital Assets Being Depreciated, Net</b>	<u>7,270,513</u>	<u>545,463</u>	<u>-</u>	<u>7,815,976</u>
<b>Total Capital Assets, net</b>	<u>\$ 9,501,524</u>	<u>\$ 1,670,169</u>	<u>\$ 1,175,743</u>	<u>\$ 9,995,950</u>

SCIOTO COUNTY REGIONAL WATER DISTRICT #1  
SCIOTO COUNTY

Notes to the Basic Financial Statements  
For the Year Ended December 31, 2016  
(Continued)

**NOTE 5 - DEBT OBLIGATIONS**

A schedule of changes in bonds and other long-term obligations of the District during 2016, follows:

	Amount Outstanding 12/31/15	Additions	Deletions	Amount Outstanding 12/31/16	Amounts Due in One Year
Water System Revenue Refunding & Improvement Bonds (2011)	\$ 1,970,000	\$ -	\$ 90,000	\$ 1,880,000	\$ 90,000
OPWC Loans 1999-2013 (0.00%)	284,076	-	33,803	250,273	33,803
Compensated Absences	183,338	49,526	-	232,864	112,588
Net Pension Liability	1,397,160	652,637	-	2,049,798	-
<b>Total</b>	<b><u>\$ 3,834,574</u></b>	<b><u>\$ 702,163</u></b>	<b><u>\$ 123,803</u></b>	<b><u>\$ 4,412,935</u></b>	<b><u>\$ 236,391</u></b>

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%-5.63%. 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, 2016 are as follows:

Year Ending	Improvement Bonds		OPWC Loans		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2017	\$ 90,000	\$ 93,850	\$ 33,803	\$ -	\$ 123,803	\$ 93,850
2018	95,000	90,700	33,803	-	128,803	90,700
2019	95,000	87,138	27,775	-	128,803	87,138
2020	100,000	83,338	27,775	-	127,775	83,338
2021	105,000	82,069	27,775	-	132,775	82,069
2022-2026	610,000	326,938	69,481	-	679,481	326,938
2027-2031	785,000	139,219	49,861	-	828,750	139,219
	<b><u>\$ 1,880,000</u></b>	<b><u>\$ 903,252</u></b>	<b><u>\$ 250,273</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 2,150,190</u></b>	<b><u>\$ 903,252</u></b>

SCIOTO COUNTY REGIONAL WATER DISTRICT #1  
SCIOTO COUNTY

Notes to the Basic Financial Statements  
For the Year Ended December 31, 2016  
(Continued)

**NOTE 6 - LEASE**

The District entered into an agreement to lease a copier during fiscal years 2011 and 2015. The terms of the Agreement provides 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 in 2015 by the lease has been capitalized in the statement of net position in the amount of \$23,199 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 position. Principal payments in fiscal year 2016 totaled \$8,799

The asset acquired through the capital lease is as follows:

	Amount Outstanding 12/31/15	Additions	Deletions	Amount Outstanding 12/31/16	Due In One Year
Xerox Copier (2011)	\$ 4,159	\$ -	\$ 4,159	\$ -	\$ -
Xerox Copier (2015)	5,642	-	1,128	4,514	1,128
Xerox Copier (2015)	17,557	-	3,512	14,045	3,512
	<u>\$ 27,358</u>	<u>\$ -</u>	<u>\$ 8,799</u>	<u>\$18,559</u>	<u>\$4,640</u>

The following is a schedule of the future long-term minimum lease payments required under the capital leases and the present value of the minimum lease payments as of December 31, 2016:

Year Ending December 31	Xerox Leases
2017	\$ 4,639
2018	4,640
2019	4,640
2020	4,640
Total Lease Payments	<u>\$ 18,559</u>

SCIOTO COUNTY REGIONAL WATER DISTRICT #1  
SCIOTO COUNTY

Notes to the Basic Financial Statements  
For the Year Ended December 31, 2016  
(Continued)

**NOTE 7 - RISK MANAGEMENT**

**Risk Pool Membership**

The District belongs to the Ohio Plan Risk Management, Inc. (OPRM) - formerly known as the Ohio Government 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 coverage to its members sold through fourteen appointed independent agents in the State of Ohio.

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. Until November 1, 2016, the OPRM retained 47% of the premium and losses on the first \$250,000 casualty treaty and 10% of the first \$1,000,000 property treaty. Effective November 1, 2016, the OPRM retained 50% of the premium and losses on the first \$250,000 casualty treaty and 30% 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 762 members as of December 31, 2016.

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 equity at December 31, 2016.

	<u>2016</u>	
Assets		\$14,765,712
Liabilities		<u>(9,531,506)</u>
Members' Equity		<u>\$ 5,234,206</u>

You can read the complete audited financial statements for OPRM at the Plan's website, [www.ohioplan.org](http://www.ohioplan.org).

SCIOTO COUNTY REGIONAL WATER DISTRICT #1  
SCIOTO COUNTY

Notes to the Basic Financial Statements  
For the Year Ended December 31, 2016  
(Continued)

**NOTE 8 – POSTEMPLOYMENT 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.

In March 2016, OPES received two favorable rulings from the Internal Revenue Service (IRS) allowing OPERS to consolidate all health care assets into the OPERS 115 Health Care Trust. Transition to the new health care trust structure was completed July 1, 2016. As of December 31, 2016, OPERS maintains a cost-sharing, multiple-employer defined benefit post-employment health care trust, which funds multiple health care plans including medical coverage, prescription drug coverage and deposits to a Health Reimbursement Arrangement to qualifying benefit recipients of both the Traditional Pension and the Combined plans. Members of the Member-Directed Plan do not qualify for ancillary benefits, including OPERS sponsored health care coverage. OPERS funds a Retiree Medical Account (RMA) for participants in the Member-Directed Plan. At retirement or refund, participants can be reimbursed for qualified medical expenses from their vested RMA balance.

In order to qualify for health care coverage, age-and-service retirees under the Traditional Pension and Combined plans must have 20 or more years of qualifying Ohio service credit. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available. The healthcare coverage provided by OPERS meets the definition of an Other Post Employment Benefit (OPEB) as described in GASB Statement 45. Please see Plan Statement in the OPERS 2015 CAFR for details.

The Ohio Revised Code permits, but does not mandate, OPERS to provide health care to its eligible benefit recipients. Authority to establish and amend health care coverage is provided to the OPERS Board of Trustees (OPERS Board) 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.

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 to fund OPERS health care plans.

Employer contribution rates are expressed as a percentage of the earnable salary of active members. In 2016, State and Local employers contributed at a rate of 14.00% of earnable salary and Public Safety and Law Enforcement employers contributed at 18.10%. These are the maximum employer contribution rates permitted by the Ohio Revised Code. Active members do not fund health care.

Each year, the OPERS Board determines the portion of the employer contribution rate that will be set aside to fund health care plans. The portion of employer contributions allocated to health care for members in the Traditional Pension Plan and Combined Plan was 2.0% during calendar year 2016. As recommended by OPERS', the portion of employer contribution allocated to health care beginning January 1, 2017 decreased to 1.0% for both plans. The OPERS Board is also authorized to establish rules for the retiree or their surviving beneficiaries to pay a portion of the health care provided. Payment amounts vary

SCIOTO COUNTY REGIONAL WATER DISTRICT #1  
SCIOTO COUNTY

Notes to the Basic Financial Statements  
For the Year Ended December 31, 2016  
(Continued)

**NOTE 8 – POSTEMPLOYMENT BENEFITS (Continued)**

depending on the number of covered dependents and the coverage selected. The employer contribution as a percentage of covered payroll deposited into the RMA for participants in the Member-Directed Plan for 2016 was 4.0%.

Information from employer's records

The District's contributions allocated to fund post employments health care benefits for the year ended December 31, 2016 was \$27,431.

**NOTE 9 - 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, 2016, the total vested liability for accumulated unpaid vacation, sick leave and compensatory time recorded was \$232,864.

**NOTE 10 – DEFINED BENEFIT PENSION PLANS**

***Net Pension Liability***

The net pension liability reported on the statement of net position represents a liability to employees for pensions. Pensions are a component of exchange transactions—between an employer and its employees—of salaries and benefits for employee services. Pensions are provided to an employee—on a deferred-payment basis—as part of the total compensation package offered by an employer for employee services each financial period. The obligation to sacrifice resources for pensions is a present obligation because it was created as a result of employment exchanges that already have occurred.

The net pension liability represents the District's proportionate share of each pension plan's collective actuarial present value of projected benefit payments attributable to past periods of service, net of each pension plan's fiduciary net position. The net pension liability calculation is dependent on critical long-term variables, including estimated average life expectancies, earnings on investments, cost of living adjustments and others. While these estimates use the best information available, unknowable future events require adjusting this estimate annually.

Ohio Revised Code limits the District's obligation for this liability to annually required payments. The District cannot control benefit terms or the manner in which pensions are financed; however, the District does receive the benefit of employees' services in exchange for compensation including pension.



SCIOTO COUNTY REGIONAL WATER DISTRICT #1  
SCIOTO COUNTY

Notes to the Basic Financial Statements  
For the Year Ended December 31, 2016  
(Continued)

**NOTE 10 – DEFINED BENEFIT PENSION PLANS (Continued)**

GASB 68 assumes the liability is solely the obligation of the employer, because (1) they benefit from employee services; and (2) State statute requires all funding to come from these employers. All contributions to date have come solely from these employers (which also includes costs paid in the form of withholdings from employees). State statute requires the pension plans to amortize unfunded liabilities within 30 years. If the amortization period exceeds 30 years, each pension plan's board must propose corrective action to the State legislature. Any resulting legislative change to benefits or funding could significantly affect the net pension liability. Resulting adjustments to the net pension liability would be effective when the changes are legally enforceable.

The proportionate share of each plan's unfunded benefits is presented as a long-term *net pension liability* on the accrual basis of accounting. The proportionate share of each plan's unfunded benefits is presented as a long-term net pension liability on the accrual basis of accounting. Any liability for the contractually-required pension contribution outstanding at the end of the year is included in intergovernmental payable on both the accrual and modified accrual basis of accounting.

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

Plan Description - District employees participate in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans. The traditional pension plan is a cost-sharing, multiple-employer defined benefit pension plan. The member-directed plan is a defined contribution plan and the combined plan is a cost-sharing, multiple-employer defined benefit pension plan with defined contribution features. While members (e.g. District employees) may elect the member-directed plan and the combined plan, substantially all employee members are in OPERS' traditional plan; therefore, the following disclosure focuses on the traditional pension plan.

OPERS provides retirement, disability, survivor and death benefits, and annual cost of living adjustments to members of the traditional plan. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report that includes financial statements, required supplementary information and detailed information about OPERS' fiduciary net position that may be obtained by visiting <https://www.opers.org/financial/reports.shtml>, by writing to the Ohio Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642, or by calling 800-222-7377.

Senate Bill (SB) 343 was enacted into law with an effective date of January 7, 2013. In the legislation, members were categorized into three groups with varying provisions of the law applicable to each group. The following table provides age and service requirements for retirement and the retirement formula applied to final average salary (FAS) for the three member groups under the traditional plan as per the reduced benefits adopted by SB 343 (see OPERS' CAFR referenced above for additional information):

SCIOTO COUNTY REGIONAL WATER DISTRICT #1  
SCIOTO COUNTY

Notes to the Basic Financial Statements  
For the Year Ended December 31, 2016  
(Continued)

**NOTE 10 – DEFINED BENEFIT PENSION PLANS (Continued)**

Group A	Group B	Group C
Eligible to retire prior to January 7, 2013 or five years after January 7, 2013	20 years of service credit prior to January 7, 2013 or eligible to retire ten years after January 7, 2013	Members not in other Groups and members hired on or after January 7, 2013
<b>State and Local</b>	<b>State and Local</b>	<b>State and Local</b>
<b>Age and Service Requirements:</b>	<b>Age and Service Requirements:</b>	<b>Age and Service Requirements:</b>
Age 60 with 60 months of service credit or Age 55 with 25 years of service credit	Age 60 with 60 months of service credit or Age 55 with 25 years of service credit	Age 57 with 25 years of service credit or Age 62 with 5 years of service credit
<b>Formula:</b>	<b>Formula:</b>	<b>Formula:</b>
2.2% of FAS multiplied by years of service for the first 30 years and 2.5% for service years in excess of 30	2.2% of FAS multiplied by years of service for the first 30 years and 2.5% for service years in excess of 30	2.2% of FAS multiplied by years of service for the first 35 years and 2.5% for service years in excess of 35

Final average Salary (FAS) represents the average of the three highest years of earnings over a member's career for Groups A and B. Group C is based on the average of the five highest years of earnings over a member's career.

Members who retire before meeting the age and years of service credit requirement for unreduced benefits receive a percentage reduction in the benefit amount.

When a benefit recipient has received benefits for 12 months, an annual cost of living adjustment (COLA) is provided. This COLA is calculated on the base retirement benefit at the date of retirement and is not compounded. For those retiring prior to January 7, 2013, the COLA will continue to be a 3 percent simple annual COLA. For those retiring subsequent to January 7, 2013, beginning in calendar year 2019, the COLA will be based on the average percentage increase in the Consumer Price Index, capped at 3 percent.

Funding Policy - The Ohio Revised Code (ORC) provides statutory authority for member and employer contributions as follows:

	State and Local
<b>2016 Statutory Maximum Contribution Rates</b>	
Employer	14.0 %
Employee	10.0 %
 <b>2016 Actual Contribution Rates</b>	
Employer:	
Pension	12.0 %
Post-employment Health Care Benefits	2.0
Total Employer	14.0 %
Employee	10.0 %

SCIOTO COUNTY REGIONAL WATER DISTRICT #1  
SCIOTO COUNTY

Notes to the Basic Financial Statements  
For the Year Ended December 31, 2016  
(Continued)

**NOTE 11 – DEFINED BENEFIT PENSION PLANS (Continued)**

Employer contribution rates are actuarially determined and are expressed as a percentage of covered payroll.

The District's contractually required contribution to the Traditional plan was \$192,093 for the year ended December 31, 2016. Of this amount, \$25,078 is included in intergovernmental payable.

***Pension Liabilities, Pension, Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions***

The net pension liability for OPERS was measured as of December 31, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on the District's share of contributions to the pension plan relative to the contributions of all participating entities. Following is information related to the proportionate share and pension expense:

	Traditional Plan
Proportionate Share of the Net Pension Liability / (Asset)	\$ 2,049,798
Proportion of the Net Pension Liability / (Asset)	0.011834%
Pension Expense	\$ 296,587
Change in Proportionate Share	0.000250%

At June 30, 2016, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows	Deferred Inflows
<b>Deferred Outflows of Resources</b>		
Differences between expected and actual experience	\$ -	\$ 39,606
Net difference between projected and actual earnings on pension plan investments	602,513	-
Changes in proportion and differences between contributions and proportionate share of contributions	19,893	-
District contributions subsequent to the measurement date	192,093	-
<b>Total Deferred Resources Related to Pensions</b>	<b>\$ 814,499</b>	<b>\$ 39,606</b>

SCIOTO COUNTY REGIONAL WATER DISTRICT #1  
SCIOTO COUNTY

Notes to the Basic Financial Statements  
For the Year Ended December 31, 2016  
(Continued)

**NOTE 11 – DEFINED BENEFIT PENSION PLANS (Continued)**

\$192,093 reported as deferred outflows of resources related to pension resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending December 31, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

Year Ending December 31:

2017	\$ 140,954
2018	150,589
2019	154,908
2020	<u>136,349</u>
Total	<u>\$ 582,800</u>

**Actuarial Assumptions - OPERS**

Actuarial valuations of an ongoing plan involve estimates of the values of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and cost trends. Actuarially determined amounts are subject to continual review or modification as actual results are compared with past expectations and new estimates are made about the future.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employers and plan members) and include the types of benefits provided at the time of each valuation. The total pension liability in the December 31, 2015, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Wage Inflation	3.75 percent
Future Salary Increases, including inflation COLA or Ad Hoc COLA	4.25 to 10.05 percent including wage inflation Pre 1/7/2013 retirees: 3 percent, simple; Post 1/7/2013 retirees: 3 percent, simple through 2018, then 2.8 percent, simple
Investment Rate of Return	8 percent
Actuarial Cost Method	Individual Entry Age

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

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

The long-term rate of return on defined benefit investment assets was determined using a building-block method in which best-estimate ranges of expected future real rates of return are developed for each

SCIOTO COUNTY REGIONAL WATER DISTRICT #1  
SCIOTO COUNTY

Notes to the Basic Financial Statements  
For the Year Ended December 31, 2016  
(Continued)

**NOTE 11 – DEFINED BENEFIT PENSION PLANS (Continued)**

major asset class. These ranges are combined to produce the long-term expected real rate of return by weighting the expected future real rates of return by the target asset allocation percentage, adjusted for inflation.

OPERS manages investments in four investment portfolios: the Defined Benefits portfolio, the Health Care portfolio, the 115 Health Care Trust portfolio and the Defined Contribution portfolio. The Defined Benefit portfolio includes the investment assets of the Traditional Pension Plan, the defined benefit component of the Combined Plan, the annuitized accounts of the Member-Directed Plan and the VEBA Trust. Within the Defined Benefit portfolio, contributions into the plans are all recorded at the same time, and benefit payments all occur on the first of the month. Accordingly, the money-weighted rate of return is considered to be the same for all plans within the portfolio. The money weighted rate of return, net of investments expense, for the Defined Benefit portfolio is 0.4 percent for 2015.

The allocation of investment assets with the Defined Benefit portfolio is approved by the Board of Trustees as outlined in the annual investment plan. Plan assets are managed on a total return basis with a long-term objective of achieving and maintaining a fully funded status for the benefits provided through the defined benefit pension plans. The table below displays the Board-approved asset allocation policy for 2014 and the long-term expected real rates of return:

Asset Class	Target Allocation	Weighted Average Long-Term Expected Real Rate of Return (Arithmetic)
Fixed Income	23.00 %	2.31 %
Domestic Equities	20.70	5.84
Real Estate	10.00	4.25
Private Equity	10.00	9.25
International Equities	18.30	7.40
Other investments	18.00	4.59
Total	100.00 %	5.28 %

**Discount Rate** The discount rate used to measure the total pension liability was 8 percent. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and those of the contributing employers are made at the statutorily required rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefits payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

SCIOTO COUNTY REGIONAL WATER DISTRICT #1  
SCIOTO COUNTY

Notes to the Basic Financial Statements  
For the Year Ended December 31, 2016  
(Continued)

**NOTE 11 – DEFINED BENEFIT PENSION PLANS (Continued)**

***Sensitivity of the District’s Proportionate Share of the Net Pension Liability to Changes in the Discount Rate*** The following table presents the District’s proportionate share of the net pension liability calculated using the current period discount rate assumption of 8 percent, as well as what the District’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is one-percentage-point lower (7 percent) or one-percentage-point higher (9 percent) than the current rate:

Authority’s proportionate share of the net pension liability	1% Decrease (7.00%)	Current Discount Rate (8.00%)	1% Increase (9.00%)
Traditional Plan	\$ 3,265,829	\$ 2,049,798	\$ 1,024,114

**NOTE 12 – CONTINGENCIES**

**Litigation**

The District is involved in legal proceedings. Although management cannot presently determine the outcome of these items, management believes that the resolution of these matters will not materially adversely affect the District’s financial condition.

**NOTE 13 – CHANGES IN ACCOUNTING PRINCIPLES**

For 2016, the District has implemented Governmental Accounting Standards Board (GASB) Statement No. 72, “Fair Value Measurement and Application”, GASB Statement No. 73, “Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement No. 68 and Amendments to Certain Provisions of GASB Statements No. 67 and No 68”, GASB Statement No. 76, “Hierarchy of Generally Accepted Accounting Principles for State and Local Governments”, GASB Statement No. 77, “Tax Abatement Disclosures”, GASB Statement No. 79, “Certain External Investment Pools and Pool Participants”, and GASB Statement No. 82, “Pension Issues-an Amendment of GASB Statements No. 67, No. 68, and No. 73”.

GASB Statement No. 72 addressed accounting and financial reporting issues related to fair value measurements. This statement provides guidance for determining a fair value measurement for financial reporting purposes for applying fair value to certain investments and disclosures related to all fair value measurements. These changes were incorporated in the District’s 2016 financial statements, however, there was no effect on beginning net position/fund balance.

GASB Statement No. 73 establishes requirements for defined benefit pensions that are not within the scope of Statement No. 68 as well as for the assets accumulated for purposes of providing those pensions. It also amends certain provisions of Statement No. 67 and Statement No. 68. The implementation of this statement did not result in any changes to the District’s financial statements.

GASB Statement No. 76 identifies, in the context of the current governmental financial reporting environment, the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with generally accepted accounting principles (GAAP) and the framework for selecting those principles. The implementation of this statement did not result in any changes to the District’s financial statements.

SCIOTO COUNTY REGIONAL WATER DISTRICT #1  
SCIOTO COUNTY

Notes to the Basic Financial Statements  
For the Year Ended December 31, 2016  
(Continued)

**NOTE 13 – CHANGES IN ACCOUNTING PRINCIPLES (continued)**

GASB Statement No. 77 requires disclosure of tax abatement information about (1) a reporting government's own tax abatement agreements and (2) those that are entered into by other governments and that reduce the reporting government's tax revenues. The implementation of this statement did not result in any change to the District's financial statements as the District does not have any GASB Statement No. 77 tax abatements.

GASB Statement No. 79 establishes accounting and financial reporting standards for qualifying external investment pools that elect to measure, for financial reporting purposes, all of their investments at amortized cost. The statement provides accounting and financial reporting guidance and also establishes additional note disclosure requirements for governments that participate in these pools. The District incorporated the corresponding GASB Statement No. 79 guidance into the 2016 financial statements; however, there was no effect on beginning net position/fund balance.

GASB Statement No. 82 improves consistency in the application of pension accounting. These changes were incorporated in the District's 2016 financial statements; however, there was no effect on beginning net position/fund balance.

**NOTE 14 – PRIOR PERIOD RESTATEMENT**

The District included several amounts in its accounts receivable balance that were incorrectly coded as receivable in a prior period. The following adjustment was made to remove these amounts:

Net Position as of December 31, 2015	\$10,653,228
Less: Accounts Receivable Balance Incorrectly Coded	<u>(26,366)</u>
Restated Net Position as of January 1, 2016	<u>\$10,626,862</u>

**SCIOTO COUNTY REGIONAL WATER DISTRICT #1  
SCIOTO COUNTY  
DECEMBER 31, 2016**

REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY  
LAST TEN FISCAL YEARS

**Public Employees' Retirement System**

	<u>2015</u>	<u>2014</u>	<u>2013</u>
District's Proportion of the Net Pension Liability	0.011834%	0.011584%	0.011584%
District's Proportionate Share of the Net Pension Liability	\$ 2,049,798	\$ 1,397,160	\$ 1,365,603
District's Covered Payroll	\$ 1,472,893	\$ 1,424,908	\$ 1,329,400
District's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	139.17%	98.05%	102.72%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	81.08%	86.45%	86.36%

Information prior to 2013 is not available



**SCIOTO COUNTY REGIONAL WATER DISTRICT #1  
SCIOTO COUNTY  
FOR THE YEAR ENDED DECEMBER 31, 2016**

**REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF CONTRIBUTIONS  
LAST TEN FISCAL YEARS**

**Public Employees' Retirement System**

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Contractually Required Contributions	\$ 192,093	\$ 176,747	\$ 170,989	\$ 172,810
Contributions in Relation to the Contractually Required Contribution	<u>\$ (192,093)</u>	<u>\$ (176,747)</u>	<u>\$ (170,989)</u>	<u>\$ (172,810)</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District Covered Payroll	\$ 1,600,774	\$ 1,472,892	\$ 1,424,908	\$ 1,329,308
Contributions as a Percentage of Covered Payroll	12.00%	12.00%	12.00%	13.00%

This schedule will be built prospectively

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Certified Public Accountants, A.C.

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

313 Second St.  
Marietta, OH 45750  
740.373.0056

1907 Grand Central Ave.  
Vienna, WV 26105  
304.422.2203

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

1310 Market Street, Suite 300  
Wheeling, WV 26003  
304.232.1358

749 Wheeling Ave., Suite 300  
Cambridge, OH 43725  
740.435.3417

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

April 6, 2018

Scioto County Regional Water District #1  
Scioto County  
PO Box 310  
326 Robert Lucas Road  
Lucasville, OH 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 **Scioto County Regional Water District #1**, Scioto County, (the "District") as of and for the years ended December 31, 2017 and 2016, 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 6, 2018.

***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*.

We did note certain matters not requiring inclusion in this report that we reported to the District's management in a separate letter dated April 6, 2018.

***Purpose of this Report***

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



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

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

**SCHEDULE OF PRIOR AUDIT FINDINGS  
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <b><i>Explain</i></b>
2015-001	Financial Reporting	Yes	N/A

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# 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  
MAY 10, 2018**