

SCIOTO COUNTY REGIONAL WATER DISTRICT #1
SCIOTO COUNTY
Regular Audit
For the Year Ended December 31, 2011

Perry & Associates
Certified Public Accountants, A.C.



Dave Yost • Auditor of State

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

We have reviewed the *Independent Accountants' Report* of the Scioto County Regional Water District #1, Scioto County, prepared by Perry & Associates, Certified Public Accountants, A. C., for the audit period January 1, 2011 through December 31, 2011. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

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

Dave Yost
Auditor of State

July 16, 2012

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

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INDEPENDENT ACCOUNTANTS' REPORT

May 4, 2012

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

To the Board of Directors:

We have audited the accompanying financial statements of the business-type activities of the **Scioto County Regional Water District #1**, Scioto County, Ohio (the District), as of and for the year ended December 31, 2011, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Scioto County Regional Water District #1, Scioto County, Ohio, as of December 31, 2011, and the respective changes in financial position and cash flows thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 4, 2012 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. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance with the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

Respectfully Submitted,

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

Perry and Associates
Certified Public Accountants, A.C.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2011
(UNAUDITED)**

Our discussion and analysis of the Scioto County Regional Water District #1's (the District's) financial performance provides an overview of the District's financial activities for the year ended December 31, 2011. Please read it in conjunction with the District's basic financial statements, which begin immediately following this analysis. This annual financial report consists of two parts – Management's Discussion and Analysis (this section) and the Basic Financial Statements and Notes.

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

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

Overview of the Basic Financial Statements

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

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

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

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

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

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

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2011
(UNAUDITED)**

Overview of the Basic Financial Statements (Continued)

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

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

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

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

Financial Highlights

During the year ending December 31, 2011, the District's operating revenues were over \$3.7 million. Operating expenses were \$3.6 million resulting in \$157,567 gain from operations. Revenues decreased slightly but remained stable when compared with last year. No water or tap rates were increased during 2011, and production and usage decreased slightly.

During 2011, the sale of bulk water was a significant source of revenue totaling \$713,688. We continue to be a back-up source for Southern Ohio Correctional Facility and did not see significant revenues from this user. Usage from other large bulk users decreased slightly as well.

Several projects in the plant and distribution departments were completed in 2011. Plant projects included the Plant Sewer and the Well Field Entry projects. Distribution projects included completion of the Riddlebarger Pipe Upgrade and various other line replacement projects throughout the system.

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

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

Financial Analysis of the District

Net Assets - The District's net assets between fiscal years 2010 and 2011 increased from \$9,313,746 to \$9,550,341. The \$236,595 increase is primarily due to a reduction in operational expenditures.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2011
(UNAUDITED)**

Financial Analysis of the District (Continued)

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

**Table 1
Statement of Net Assets**

	2011	2010
Assets		
Current Assets	\$ 3,908,917	\$ 2,214,700
Non-Current Assets	8,616,982	8,777,335
Total Assets	<u>12,525,899</u>	<u>10,992,035</u>
Liabilities		
Current Liabilities	285,475	448,178
Non-Current Liabilities	2,690,083	1,230,111
Total Liabilities	<u>2,975,558</u>	<u>1,678,289</u>
Net Assets		
Invested in Capital Assets, Net of Debt	5,562,886	6,937,584
Restricted for Debt Service	245,014	388,318
Unrestricted	3,742,441	1,987,844
Total Net Assets	<u>\$ 9,550,341</u>	<u>\$ 9,313,746</u>

Change in Net Assets – The District's gain from operations was \$157,567; operating expenses reflect a decrease of \$191,713. A reduction in payments to employees of \$84,015 and a decrease of \$63,206 in payments to suppliers account for most of the change.

In fiscal year 2011, 99% of the District's operating revenues came from water and tap sales with \$713,688 coming from bulk customers. These revenues increased \$64,727, indicating a recovery of revenues within the bulk market.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2011
(UNAUDITED)**

Financial Analysis of the District (Continued)

**Table 2
Changes in Net Assets**

	2011	2010
Total Operating Revenues	\$ 3,791,927	\$ 3,823,982
Total Operating Expenses	3,634,360	3,826,073
Total Operating Revenues/(Expenses)	157,567	(2,091)
Gain/Loss on Sale of Asset	9,354	29,613
Interest Income	1,171	842
Interest Expense	(80,365)	(58,716)
Total Non-Operating Revenues/(Expenses)	(69,840)	(28,261)
Income before Contributions	87,727	(30,352)
Capital Contributions	148,868	736
Changes in Net Assets	236,595	(29,616)
Net Assets at Beginning of Year	9,313,746	9,343,362
Net Assets at End of Year	<u>\$ 9,550,341</u>	<u>9,313,746</u>

The District's interest income continues to remain low with only \$1,171 being earned in 2011 due to lower rates of return. With the economy and banking industry in turmoil, this number is expected to remain low throughout 2012. The non-operating expenses increased as a result of interest payments made on the 1999 Revenue Bonds and the 2011 Revenue Bonds. The principal balance of the 1999 Revenue Bonds was paid in full and additional funds for capital projects were obtained through the new 2011 Revenue Bonds.

Capital Assets

As of December 31, 2011, the District had invested approximately \$8.3 million. This amount represents a net decrease (including additions and deductions) of \$82,443 over the prior year. The greatest increases to capital assets were projects in the Treatment Plant and replacement of the District's distribution lines. Construction in progress had an increase of \$149,022. More detailed information about the District's capital assets is presented in Note 3 to the basic financial statements.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2011
(UNAUDITED)**

Capital Assets (Continued)

Table 3 summarizes the changes in Capital Assets.

**Table 3
Capital Assets**

	2011	2010
Land	\$ 693,100	\$ 684,014
Construction in Progress	992,514	843,492
Source of Supply	1,316,644	1,296,764
Water Treatment Plant	4,398,777	4,239,537
Distribution System	11,197,024	10,921,854
Transportation Equipment	694,874	704,889
Office Furniture & Equipment	217,080	249,310
Other Equipment	1,288,028	1,258,937
Less: Accumulated Depreciation	(12,495,072)	(11,813,385)
Total Capital Assets	<u>\$ 8,302,969</u>	<u>\$ 8,385,412</u>

Budget Analysis

The District was short of achieving the budgeted revenue for 2011 by \$149,182. Total receipts collected were over \$3.95 million. The District's expenses (excluding depreciation) came in under budget by approximately \$151,546. This does not include depreciation expense of \$750,821. Excluding depreciation, the District expenses totaled \$2,963,904.

Debt Administration

At December 31, 2011, the District had \$2,300,000 in bonds payable. The total OPWC debt is \$419,288. More detailed information about the District's long-term debt is presented in Note 4 to the Basic Financial Statements.

Economic Factors

The District's financial condition remains stable as the District proceeds through another year of system upgrades and improvements. Additional money for capital improvement has been obtained through a bond renewal. District expenses have been managed well and decreased during the year. Revenue has remained flat and increased efforts to identify water loss have been initiated. The local economic conditions continue to challenge the District with customer delinquency, water theft and foreclosures. By implementing a consistent collection approach the District has been able to keep customer delinquency at a reasonable level.

Contacting the District's Financial Management

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

SCIOTO COUNTY REGIONAL WATER DISTRICT #1
SCIOTO COUNTY
STATEMENT OF NET ASSETS
AS OF DECEMBER 31, 2011

	2011
ASSETS:	
Current Assets:	
Cash and Cash Equivalents	\$ 3,181,416
Accounts Receivable	596,532
Deposits	3,750
Prepaid Expenses	28,425
Inventories	98,794
Total Current Assets	3,908,917
Noncurrent Assets:	
Deferred Charges:	
Deferred Charges	68,999
Restricted Assets:	
Cash and Cash Equivalents	245,014
Capital Assets:	
Non-Depreciable Capital Assets	1,685,614
Depreciable Capital Assets, Net of Depreciation	6,617,355
Total Capital Assets	8,302,969
Total Noncurrent Assets	8,616,982
TOTAL ASSETS	\$ 12,525,899
LIABILITIES AND EQUITY:	
Current Liabilities:	
Accounts Payable	\$ 77,751
Employee Withholding Payable	397
Unset Water Taps Payable	27,110
Compensated Absences Payable	60,330
Customer Deposits	1,925
Current Revenue Bonds Payable	80,000
Current OPWC Payable	33,803
Current Capital Lease Payable	4,159
Total Current Liabilities	285,475
Long-Term Liabilities:	
Long Term Compensated Absences Payable	67,962
Capital Lease Payable	16,636
OPWC Loan Payable	385,485
Revenue Bonds Payable	2,220,000
Total Long-Term Liabilities	2,690,083
TOTAL LIABILITIES	2,975,558
Net Assets:	
Invested in Capital Assets, Net of Related Debt	5,562,886
Restricted Net Assets for:	
Debt Service	245,014
Unrestricted Net Assets	3,742,441
Total Net Assets	9,550,341
TOTAL LIABILITIES AND NET ASSETS	\$ 12,525,899

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

SCIOTO COUNTY REGIONAL WATER DISTRICT #1
SCIOTO COUNTY
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2011

	2011
Operating Revenues:	
Water Sales	\$ 3,706,078
Water Tap Sales	31,035
Lab Test Fees	3,328
Miscellaneous	51,486
 Total Operating Revenues	 3,791,927
Operating Expenses:	
Supply and Treatment	1,204,986
Distribution	967,492
Administration, Billing, and Office	699,392
Board Expenses	11,669
Depreciation Expense	750,821
 Total Operating Expenses	 3,634,360
 Operating Income/(Loss)	 157,567
Non-Operating Revenues/(Expenses):	
Gain on Sale of Asset	9,354
Interest Income	1,171
Interest Expense	(80,365)
 Total Non-Operating Revenues/(Expenses)	 (69,840)
 Income before Contributions	 87,727
Capital Contributions	
Capital Contributions from Other Governments	148,868
 Total Capital Contributions	 148,868
 Change in Net Assets	 236,595
 Net Assets - January 1	 9,313,746
 Net Assets - December 31	 \$ 9,550,341

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, 2011**

	2011
Cash Flows from Operating Activities:	
Receipts from Customers	\$ 3,739,973
Receipts from Others	48,783
Payments to Suppliers and Vendors	(1,082,288)
Payments to Employees	(1,832,837)
	<u>873,631</u>
Net Cash Provided by (Used by) Operating Activities	
Cash Flows from Capital and Related Financing Activities:	
Principal on Bond	(990,000)
Interest on Bond	(58,716)
OPWC Principal	(33,803)
Capital Lease Principal	(2,390)
Proceeds from Contributed Revenue	148,868
Proceeds from Sales of Capital Assets	9,354
Proceeds from Revenue Bond	2,300,000
Payments for Capital Acquisitions	(671,579)
	<u>701,734</u>
Net Cash Provided by (Used by) Capital and Related Financing Activities	
Cash Flows from Investing Activities:	
Interest Earned	1,171
	<u>1,171</u>
Net Cash Provided by (Used by) Investing Activities	
Net Increase/(Decrease) in Cash and Cash Equivalents	1,576,536
Cash and Cash Equivalents - January 1	1,849,894
	<u>3,426,430</u>
Cash and Cash Equivalents - December 31	3,426,430
Reconciliation of Operating Income to Net Cash Provided by (Used by) Operating Activities:	
Operating Income	157,567
Adjustments:	
Depreciation Expense	750,821
<i>Change in Assets</i>	
(Increase) Decrease in Accounts Receivable	(3,172)
(Increase) Decrease in Prepaid Items	23,223
(Increase) Decrease in Materials and Supplies Inventory	4,872
(Increase) Decrease in Deferred Charges	(65,394)
(Increase) Decrease in Deposits	700
<i>Change in Liabilities</i>	
Increase (Decrease) in Accounts Payable	(25,524)
Increase (Decrease) in Unset Water Taps Payable	1,160
Increase (Decrease) in Employee's Withholding Payable	106
Increase (Decrease) in Compensated Absences Payable	29,272
	<u>716,064</u>
Total Adjustments	
Net Cash Provided by (Used by) Operating Activities	\$ 873,631

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, 2011**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. DESCRIPTION OF THE ENTITY

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

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

B. BASIS OF ACCOUNTING

The basic financial statements of the District have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The District also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or after November 30, 1989, to its proprietary activities provided they do not conflict with or contradict GASB pronouncements. The more significant of the District's accounting policies are described below.

The District's operations are financed and operated in a manner similar to private business enterprises where the intent is that costs (expenses, including depreciation) of providing services to the general public on a continuing basis be financed or recovered primarily through user charges or where it has been decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

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

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

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

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011 (CONTINUED)**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. CAPITAL ASSETS

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

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

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

D. INVENTORY

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

E. 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.

F. COMPENSATED ABSENCES

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

G. PENSIONS

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

H. CASH & CASH EQUIVALENTS

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

During fiscal year 2011, investments were limited to U.S. Treasury Obligations and Repurchase Agreements.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011 (CONTINUED)**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

H. CASH & CASH EQUIVALENTS (CONTINUED)

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

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

I. 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.

J. DEFERRED CHARGES

Deferred charges are non-regularly recurring, non-capital costs of operations that benefit future periods. These costs include those incurred in connection with deferred hydrology, hydrology study, and long and short term sludge plan. Deferred charges expense for 2011 was \$3,605 leaving a zero balance. In addition, bond issuance costs have been established as deferred charges.

K. PREPAID EXPENSES

Charges entered in the accounts for benefits not yet received. Prepaid expenses differ from deferred charges in that they are spread over a shorter period of time than deferred charges and are regularly recurring costs of operation. Prepaid expenses for 2011 were \$28,425.

L. 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.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011 (CONTINUED)**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

M. NET ASSETS

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

NOTE 2 - EQUITY IN POOLED DEPOSITS AND INVESTMENTS

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

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

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

Interim deposits are deposits of interim monies. Interim monies are those monies which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit or by savings accounts, including passbook accounts.

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

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

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the federal national mortgage association, federal home loan bank, federal farm credit bank, federal home loan mortgage corporation, government national mortgage association, and student loan marketing association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bond and other obligations of the State of Ohio;

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011 (CONTINUED)**

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

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.

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

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

Deposits At year end, the carrying amount of the District's deposits was \$305,057 and the bank balance was \$369,766. Of the bank balance at year end 2011, \$250,000 was covered by federal depository insurance. The remaining balance was covered by a 105% public depository pool, which was collateralized with securities held by the pledging institution trust department but not in the District's name. Although all State statutory requirements for the deposit of money had been followed, non-compliance with federal requirements could potentially subject the District to a successful claim by the FDIC.

Investments The District'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.

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

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011 (CONTINUED)**

NOTE 2 – DEPOSITS AND INVESTMENTS (CONTINUED)

	Category 1	Carrying Amount	Fair Value
U.S. Treasury Obligations	\$ 2,875,959	\$ 2,875,959	\$ 2,875,959
Reserve Bond Trust	188,968	188,968	188,968
Reserve Bond Payment	56,046	56,046	56,046
Total Investments		<u>\$ 3,120,973</u>	<u>\$ 3,120,973</u>

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

NOTE 3 - CAPITAL ASSETS

A summary of the District's capital assets as of December 31, 2011, are as follows:

	2010	Additions	Deletions	2011
Capital Assets, Not Being Depreciated				
Land	\$ 684,014	\$ 9,086	\$ -	\$ 693,100
Construction in Progress	843,492	599,072	450,050	992,514
Total Capital Assets, Not Being Depreciated	<u>1,527,506</u>	<u>608,158</u>	<u>450,050</u>	<u>1,685,614</u>
Capital Assets Being Depreciated				
Source of Supply	1,296,764	19,880	-	1,316,644
Water Treatment Plant	4,239,537	159,240	-	4,398,777
Distribution System	10,921,854	275,170	-	11,197,024
Transportation Equipment	704,889	6,285	(16,300)	694,874
Office Furniture & Equipment	249,310	22,853	(55,083)	217,080
Other Equipment	1,258,937	33,091	(4,000)	1,288,028
Total Capital Assets Being Depreciated	<u>18,671,291</u>	<u>516,519</u>	<u>(75,383)</u>	<u>19,112,427</u>
Less Accumulated Depreciation				
Source of Supply	(897,881)	(63,795)	-	(961,676)
Water Treatment Plant	(2,958,745)	(141,045)	-	(3,099,790)
Distribution System	(6,339,204)	(379,136)	-	(6,718,340)
Transportation Equipment	(513,668)	(83,593)	15,275	(581,986)
Office Furniture & Equipment	(203,891)	(12,408)	50,304	(165,995)
Other Equipment	(899,996)	(70,845)	3,556	(967,285)
Less Accumulated Depreciation	<u>(11,813,385)</u>	<u>(750,822)</u>	<u>69,135</u>	<u>(12,495,072)</u>
Total Capital Assets Being Depreciated, Net	<u>6,857,906</u>	<u>(234,303)</u>	<u>(6,248)</u>	<u>6,617,355</u>
Total Capital Assets, Net	<u>\$ 8,385,412</u>	<u>\$ 373,855</u>	<u>\$ 456,298</u>	<u>\$ 8,302,969</u>

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011 (CONTINUED)**

NOTE 4 - DEBT

A schedule of changes in bonds and other long-term debt obligations of the District during 2011 follows:

	Amount Outstanding 12/31/10	Additions	Deletions	Amount Outstanding 12/31/11	Amounts Due in One Year
Water System Revenue Refunding & Improvement Bonds (1999)	\$ 990,000	\$ -	\$ 990,000	\$ -	\$ -
Water System Revenue Refunding & Improvement Bonds (2011)	-	2,300,000	-	2,300,000	80,000
OPWC Loans 1999- 2010 (0.00%)	453,091	-	33,803	419,288	33,803
Compensated Absences	<u>99,019</u>	<u>32,991</u>	<u>3,718</u>	<u>128,292</u>	<u>60,330</u>
Total	<u>\$ 1,542,110</u>	<u>\$ 2,332,991</u>	<u>\$ 1,027,521</u>	<u>\$ 2,847,580</u>	<u>\$ 174,133</u>

The revenue refunding and improvement bonds are special obligations of the District, payable solely from the pledged revenues of its water system and the revenue fund created under the indenture. The bonds were issued to fund capital expenditures to improve the system at a rate of 2.00%. Payments are made yearly.

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

Principal and interest requirements to retire the District's long-term obligations outstanding at December 31, 2011 are as follows:

Year Ending December 31	Improvement Bonds		OPWC Loans		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2012	\$ 80,000	\$ 106,444	\$ 33,803	\$ -	\$ 113,803	\$ 106,444
2013	80,000	104,744	33,803	-	113,803	104,744
2014	85,000	102,782	33,803	-	118,803	102,782
2015	85,000	101,719	33,803	-	118,803	101,719
2016	85,000	99,381	33,803	-	118,803	99,381
2017-2021	485,000	449,019	145,368	-	630,368	449,019
2022-2026	225,000	326,937	67,405	-	292,405	326,937
2027-2031	1,175,000	139,219	37,500	-	1,212,500	139,219
	<u>\$ 2,300,000</u>	<u>\$ 1,430,245</u>	<u>\$ 419,288</u>	<u>\$ -</u>	<u>\$ 2,719,288</u>	<u>\$ 1,430,245</u>

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011 (CONTINUED)**

NOTE 5 - LEASES

A schedule of changes in lease obligations of the District during 2011 follows:

	Amount Outstanding 12/31/10	Additions	Deletions	Amount Outstanding 12/31/11	Amounts Due in One Year
Xerox Lease (2008)	\$ 4,737	\$ -	\$ 4,737	\$ -	\$ -
Xerox Lease (2011)	<u>-</u>	<u>20,795</u>	<u>-</u>	<u>20,795</u>	<u>4,159</u>
Total	<u>\$ 4,737</u>	<u>\$ 20,795</u>	<u>\$ 4,737</u>	<u>\$ 20,795</u>	<u>\$ 4,159</u>

The District entered into an agreement to lease a copier during 2011. The terms of the agreement provide options to purchase the equipment. The lease meets the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13 "Accounting for Leases", which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. Capital lease payments have been reclassified and are reflected as debt service expenditures in the basic financial statements for the governmental funds. These expenditures are reflected as program/function expenditures on a budgetary basis.

The capital asset acquired by the lease has been capitalized in the statement of net assets for governmental activities in the amount of \$20,795 which is equal to the present value of the minimum lease payments at the time of acquisition. A corresponding liability was recorded on the statement of net assets. Principal payments in the fiscal year totaled \$0.

The District entered into an agreement to lease a copier during 2008. This agreement was terminated in 2011 and replaced with the above agreement. The capitalized asset with a value of \$11,949 was removed from the capital asset record, and the removal reflected as a disposal of asset and reduction in accumulated depreciation of \$7,169 on the Statement of Net Assets. Principal payments in 2011 totaled 2,390, with \$2,347 remaining on the lease at the time of termination.

The following is a schedule of the future long-term minimum lease payments required under the capital lease and the present value of the minimum lease payments as of December 31, 2011:

<u>Year Ending December 31</u>	<u>Xerox Lease</u>
2012	\$ 4,159
2013	4,159
2014	4,159
2015	4,159
2016	<u>4,159</u>
Total Lease Payments	<u>\$ 20,795</u>

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011 (CONTINUED)**

NOTE 6 - RISK MANAGEMENT

Risk Pool Membership

Prior to 2009, the District belonged to 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 was legally separate from its member governments.

On January 1, 2009, through an internal reorganization, the Plan created three separate non-profit corporations including:

- Ohio Plan Risk Management, Inc. (OPRM) - formerly known as the Ohio Risk Management Plan;
- Ohio Plan Healthcare Consortium, Inc. (OPHC) - formerly known as the Ohio Healthcare Consortium; and
- Ohio Plan, Inc. - mirrors the oversight function previously performed by the Board of Directors. The Board of Trustees consists of eleven (11) members that include appointed and elected officials from member organizations.

Pursuant to Section 2744.081 of the Ohio Revised Code, the plan provides property, liability, errors and omissions, law enforcement, automobile, excess liability, crime, surety and bond, inland marine and other coverages to its members sold through fourteen appointed independent agents in the State of Ohio. These coverage programs, referred to as Ohio Plan Risk management ("OPRM"), are developed specific to each member's risk management needs and the related premiums for coverage are determined through the application of uniform underwriting criteria addressing the member's exposure to loss, except OPRM retains 40% (17.5% through October 31, 2010 and 15% through October 31, 2009) of the premium and losses on the first \$250,000 casualty treaty and 10% of the first \$1,000,000 property treaty. Members are only responsible for their self-retention (deductible) amounts, which vary from member to member. OPRM had 761 and 725 members as of December 31, 2010 and 2009 respectively. The District participates in this coverage.

The Plan formed the Ohio Plan Healthcare Consortium ("OPHC"), as authorized by Section 9.833 of the Ohio Revised Code. The OPHC was established to provide cost effective employee benefit programs for Ohio political sub-divisions and is a self-funded, group purchasing consortium that offers medical, dental, vision and prescription drug coverage as well as life insurance for its members. The OPHC is sold through seventeen appointed independent agents in the State of Ohio. Coverage programs are developed specific to each member's healthcare needs and the related premiums for coverage are determined through the application of uniform underwriting criteria. Variable plan options are available to members. These plans vary primarily by deductibles, coinsurance levels, office visit co-pays and out-of pocket maximums. OPHC had 65 and 60 members as of December 31, 2010 and 2009 respectively. The District does not participate in this coverage.

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.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011 (CONTINUED)**

NOTE 6 - RISK MANAGEMENT (CONTINUED)

Risk Pool Membership (Continued)

The Pool's audited financial statements conform with generally accepted accounting principles, and reported the following assets, liabilities and retained earnings at December 31: 2010 and 2009 (the latest information available), and include amounts for both OPRRM and OPHC:

	2010		2009	
	<u>OPRM</u>	<u>OPHC</u>	<u>OPRM</u>	<u>OPHC</u>
Assets	\$ 12,036,541	\$ 1,355,131	\$ 11,176,186	\$ 1,358,802
Liabilities	(4,845,056)	(1,055,096)	(4,852,485)	(1,253,617)
Members' Equity	<u>\$ 7,191,485</u>	<u>\$ 300,035</u>	<u>\$ 6,323,701</u>	<u>\$ 105,185</u>

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

NOTE 7 - PENSION PLAN

Ohio Public Employees Retirement System

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

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

The Combined Plan is a cost sharing, multiple-employer defined benefit pension plan. Under the Combined Plan, OPERS invests employer contributions to provide a formula retirement benefit similar in nature to the Traditional Pension Plan benefit. Member contributions, the investment of which is self-directed by the members, accumulate retirement assets in a manner similar to the Member-Directed Plan.

OPERS provides retirement, disability, survivor and death benefits and annual cost-of living adjustments to members of the Traditional Pension and Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits. Authority to establish and amend benefits is provided in Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report. Interested parties may obtain a copy by writing to OPERS, 277 East Town Street, Columbus, OH 43215-4642, or by calling 614-222-5601 or 800-222-7377.

For the year ended December 31, 2011, the members of all three plans were required to contribute 10% of the annual covered salaries. The employer contribution rate was 14% of covered payroll. Authority to establish and amend benefits is provided in Chapter 145 of the Ohio Revised code.

The Water District's contributions to the PERS of Ohio for the years ended December 31, 2009, 2010 and 2011 were \$293,792, \$300,345 and \$267,748, respectively, which were equal to the total required contributions

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011 (CONTINUED)**

NOTE 7 - PENSION PLAN (CONTINUED)

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 healthcare plan, which includes a medical plan, prescription drug program and Medicare Part B premium reimbursement, to qualifying members of both the Traditional Pension and the Combined Plans, Members of the Member-Directed Plan do not qualify for ancillary benefits, including post-employment health care coverage.

In order to qualify for post-employment health care coverage, age-and-service retirees under the Traditional Pension and Combined Plans must have 10 or more years of qualifying Ohio service credit. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available. The health care coverage provided by OPERS meets the definition of an Other Post-employment Benefit (OPEB) as described in GASB Statement 12.

Funding Policy

The post-employment health care plan was established under, and is administrated in accordance with, Internal Revenue Code 401(h). The Ohio Revised Code provides the statutory authority requiring public employers to fund post retirement health care through contributions to OPERS. A portion of each employer's contribution to OPERS is set aside for the funding of post-retirement health care.

Employer contribution rates are expressed as a percentage of the covered payroll of active members. In 2011, state and local employers contributed at a rate of 14.0 percent of covered payroll. The Ohio Revised Code currently limits the employer contribution to a rate not to exceed 14 percent of covered payroll for state and local employer units.

Each year, the OPERS Retirement Board determines the portion of the employer contribution rate that will be set aside for funding of post-employment health care benefits. The portion of employer contributions allocated to health care for members in the Traditional Plan was 5 percent as of December 31, 2010. The portion of employer contributions allocated to health care for members in the Combined Plan was 4.23% as of December 31, 2010. These percentages are the most recent available.

The OPERS Retirement Board is also authorized to establish rules for the payment of a portion of the health care benefits provided, by the retiree or their surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected. Active members do not make contributions to the post-employment health care plan.

The portion of employer contributions that were used to fund post-employment benefits for 2009, 2010 and 2011 was approximated.

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

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011 (CONTINUED)**

NOTE 8 - 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, 2011, the total vested liability for accumulated unpaid vacation, sick leave and compensatory time recorded was \$128,292.

NOTE 9 – PRIOR PERIOD RESTATEMENT

For the year ended December 31, 2011, the following prior period adjustments were made to the December 31, 2010 net assets to write off allowance for doubtful accounts no longer on the District's books and receivables for COBRA insurance payments for a deceased employee, resulting in the following restatement of net assets:

Net Assets at 12/31/2010	Prior Period Adjustments	Restated Net Assets at 1/1/2011
\$ 9,305,792	\$ 7,954	\$ 9,313,746

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

May 4, 2012

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

To the Board of Directors:

We have audited the financial statements of the business-type activities of the **Scioto County Regional Water District #1**, Scioto County, Ohio (the District) as of and for the year ended December 31, 2011, which collectively comprise the District's basic financial statements and have issued our report thereon dated May 4, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or combination of internal control deficiencies resulting in more than a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and timely corrected.

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

Compliance and Other Matters

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

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

Respectfully Submitted,

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

Perry and Associates
Certified Public Accountants, A.C.



Dave Yost • Auditor of State

SCIOTO COUNTY REGIONAL WATER DISTRICT #1

SCIOTO COUNTY

CLERK'S CERTIFICATION

This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
JULY 26, 2012