



Dave Yost • Auditor of State

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

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Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT

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

To the Board of Directors:

Report on the Financial Statements

We have audited the accompanying financial statements of the Scioto County Regional Water District #1, Scioto County, Ohio (the District), as of and for the year ended December 31, 2015, 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 such 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 overall financial statement presentation.

We believe the audit evidence we obtained is sufficient and appropriate to support our 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, 2015, and the changes in its financial position and its cash flows for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

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Emphasis of Matter

As discussed in Note 3 to the financial statements, during the year ended June 30, 2015, the District adopted Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27* and also GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. We did not modify our opinion regarding this matter.

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 schedules 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 May 8, 2017, 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.



Dave Yost
Auditor of State

Columbus, Ohio

May 8, 2017

**SCIOTO COUNTY REGIONAL WATER DISTRICT NO. 1
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED DECEMBER, 2015**

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, 2015. 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 the 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) Invested in Capital Assets, Net of Related Debt, 2) Restricted, and 3) Unrestricted.
2. The *Statement of Revenues, Expenses, and Changes in Net Position* presents information showing how the District's net position changed during the most recent fiscal year. This statement measures the success of the District's operations over the past year and can be used to determine the District's creditworthiness.
3. The *Statement of Cash Flows* now includes a summary of the cash flows from operations and investments during the reporting period. As in the past, the *Statement of Cash Flows* continues to reconcile the reasons why cash from operating activities differs from operating income.

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

Overview of the Basic Financial Statements

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

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

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

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

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

The *Statement of 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)

New Accounting Principles

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 Assets 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.

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

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

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, 2015, the District's operating revenues were over \$4.29 million. Operating expenses were \$3.6 million resulting in \$700,724 gain from operations. There were no rate increases in 2015, so revenues remained stable and very similar to the previous year.

During 2015, the sale of bulk water was a significant source of revenue totaling \$901,827. We continue to be a back-up source for Southern Ohio Correctional Facility and during June and July provided service to the facility. Revenues from other large bulk users increased slightly as well.

Several projects in the plant and distribution departments were completed in 2015. Plant projects included the Surge Tank, Wellfield Evaluation, and the Well Field lid replacement. Distribution projects included the Minford Sewer Project, construction at our Minford Distribution Facility, 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. 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. We are working towards having a real-time model 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 restated net position between fiscal years 2014 and 2015 increased from \$9,905,408 to \$10,653,228. This is an increase of \$747,820. As a result of implementing GASB 68 and GASB 71, 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 had the effect of restating net position at January 1, 2015, from \$11,100,022 to \$9,905,408.

Net position represents the difference between assets and liabilities. 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 improvements of those assets. Net position is 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. The District applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available.

**Table 1
Net Position**

	2015	2014	Increase (Decrease)
Assets:			
Current & Restricted Assets	\$ 4,912,241	\$ 4,829,225	\$ 83,016
Capital Assets	\$ 9,501,523	\$ 9,075,131	\$ 426,392
<i>Total Assets</i>	<u>\$ 14,413,764</u>	<u>\$ 13,904,356</u>	<u>\$ 509,408</u>
Deferred Outflows of Resources:			
Deferred Charges	\$ 289,628	\$ 45,999	\$ 243,629
Liabilities:			
Current Liabilities	\$ 387,756	\$ 509,227	\$ (121,471)
Noncurrent Liabilities	\$ 3,637,869	\$ 2,341,110	\$ 1,296,759
<i>Total Liabilities</i>	<u>\$ 4,025,625</u>	<u>\$ 2,850,337</u>	<u>\$ 1,175,288</u>
Deferred Inflows:			
Pension	\$ 24,545	\$ -	\$ 24,545
Net Position:			
Invested in Capital Assets	\$ 7,258,422	\$ 6,693,934	\$ 564,488
Restricted for Other Purposes	\$ 248,826	\$ 247,632	\$ 1,194
Unrestricted	\$ 3,145,980	\$ 4,158,452	\$ (1,012,472)
<i>Total Net Position</i>	<u>\$ 10,653,228</u>	<u>\$ 11,100,018</u>	<u>\$ (446,790)</u>

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

Change in Net Position – The District's operating revenue was \$4,296,269; operating expenses remained stable with a slight increase of 11,951.

In fiscal year 2015, 99% of the District's operating revenues came from water and tap sales with \$901,827 coming from bulk customers. In addition, Water Tap Sales were \$33,041 resulting in a Change in Net Position of \$747,820. Overall, revenues and expenses remained stable with a slight decrease in both categories.

**Table 2
Changes in Net Position**

	2015	2014	Increase (Decrease)
Operating Revenues			
Water Sales	\$ 4,211,464	\$ 4,308,454	\$ (96,990)
Water Tap Sales	\$ 33,041	\$ 47,860	\$ (14,819)
Lab Test Fees	\$ 2,688	\$ 3,184	\$ (496)
Miscellaneous	\$ 49,076	\$ 18,253	\$ 30,823
Non-Operating Revenues			
Gain/Loss on Sale of Asset	\$ 44,266	\$ 20,236	\$ 24,030
Interest Income	\$ 8,356	\$ 6,643	\$ 1,713
<i>Total Revenues</i>	<u>\$ 4,348,892</u>	<u>\$ 4,404,630</u>	<u>\$ (55,738)</u>
Operating Expenses			
Supply and Treatment	\$ 1,293,072	\$ 1,220,273	\$ 72,799
Distribution	\$ 927,389	\$ 1,008,385	\$ (80,996)
Administration, Billing, and Office	\$ 792,513	\$ 768,151	\$ 24,362
Board Expenses	\$ 12,798	\$ 15,292	\$ (2,494)
Depreciation Expenses	\$ 569,773	\$ 595,395	\$ (25,622)
Non-Operating Expenses			
Interest Expense	\$ 100,871	\$ 103,124	\$ (2,253)
<i>Total Expenses</i>	<u>\$ 3,696,417</u>	<u>\$ 3,710,620</u>	<u>\$ (14,204)</u>
<i>Income Before Contributions</i>	\$ 652,476	\$ 694,010	\$ (41,534)
Total Capital Contributions	\$ 95,345	\$ 83,036	\$ 12,309
Change in Net Position	\$ 747,820	\$ 777,046	\$ (29,226)
<i>Net Position Beginning of Year (Restated in 2015)</i>	<u>\$ 9,905,408</u>	<u>\$ 10,322,972</u>	<u>\$ (417,564)</u>
<i>Net Position End of Year</i>	<u><u>\$ 10,653,228</u></u>	<u><u>\$ 11,100,018</u></u>	<u><u>\$ (446,790)</u></u>

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

Capital Assets

As of December 31, 2015, the District had invested over \$9.5 million in capital assets. This amount represents a net increase of \$426,392 over the prior year. The greatest increase to capital assets were projects in the District's distribution system. Construction in progress grew by \$244,368 with the construction in progress on the Minford Distribution Garage and other projects. More detailed information about the District's capital assets is presented in Note 4 to the basic financial statements.

**Table 3
Capital Assets**

	2015	2014
Land	\$ 888,394	\$ 884,333
Construction and Assets in Progress	\$ 1,342,617	\$ 1,098,249
Source of supply	\$ 1,542,995	\$ 1,494,397
Water Treatment Plant	\$ 4,823,487	\$ 4,776,149
Distribution System	\$ 13,126,524	\$ 12,667,984
Transportation Equipment	\$ 742,765	\$ 738,545
Office Furniture and Equipment	\$ 257,379	\$ 239,005
Other Equipment	\$ 1,569,857	\$ 1,500,138
Less: Accumulated Depreciation	\$ (14,792,493)	\$ (14,323,669)
Totals	<u>\$ 9,501,523</u>	<u>\$ 9,075,131</u>

Budget Analysis

The District exceeded the budgeted revenue for 2015 by \$197,146. Total receipts collected were over \$4.43 million. The District's expenses came in under budget by approximately \$275,785. The District expenses for 2015 totaled \$4,490,335.

Debt Administration

At December 31, 2015, the District had \$1,970,000 in bonds payable. The total OPWC debt is \$284,576. 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)**

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 2015 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 continues to provide backup service to the Southern Ohio Correctional Facility with plans to bid to be the primary provider. 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
Statement of Net Position
For the Year Ending December 31, 2015**

	Assets	2015
Current Assets		
Cash and Cash Equivalents		\$ 3,675,381
Accounts Receivable		\$ 778,933
Deposits		\$ 3,850
Inventories		\$ 167,958
Prepaid Expenses		\$ 37,293
Total Current Assets		<u>\$ 4,663,415</u>
Non-Current Assets		
Restricted Assets:		
Investments		\$ 248,826
Capital Assets:		
Non-Depreciable Capital Assets		\$ 2,231,011
Depreciable Capital Assets, Net of Accum Depre		<u>\$ 7,270,512</u>
Total Capital Assets		\$ 9,501,523
Total Non-Current Assets		<u>\$ 9,750,349</u>
Total Assets		<u>\$ 14,413,764</u>
Deferred Outflows of Resources:		
Deferred Charge on Debt		\$ 38,333
Deferred Pension Related		<u>\$ 251,295</u>
Total Deferred Outflows of Resources:		<u>\$ 289,628</u>
Liabilities		
Current Liabilities		
Accounts Payable		\$ 84,216
Accrued Wages		\$ 46,868
Employee Withholding Payable		\$ 708
Unset Water Taps Payable		\$ 32,610
Compensated Absences Payable		\$ 91,462
Customer Deposits		\$ 3,450
Current Bonds Payable		\$ 90,000
Current OPWC Payable		\$ 33,803
Current Capital Lease Payable		<u>\$ 4,640</u>
Total Current Liabilities		<u>\$ 387,757</u>
Noncurrent Liabilities		
Long Term Compensated Abs		\$ 91,876
Capital Lease Payable		\$ 18,559
OPWC Loan Payable		\$ 250,273
Net Pension Liability		\$ 1,397,161
Revenues Bonds Payable		<u>\$ 1,880,000</u>
Total Noncurrent Liabilities		<u>\$ 3,637,869</u>
Total Liabilities		<u>\$ 4,025,626</u>
Deferred Inflows of Resources		
Pension		<u>\$ 24,545</u>
Net Position		
Invested in capital asset net of related debt		\$ 7,258,422
Restricted for:		
Debt Service		\$ 248,826
Unrestricted		<u>\$ 3,145,980</u>
Total Net Position		<u>\$ 10,653,228</u>

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 Ending December 31, 2015

	2015
Operating Revenues	
Water Sales	\$ 4,211,464
Water Tap Sales	\$ 33,041
Lab Test Fees	\$ 2,688
Miscellaneous	\$ 49,076
Total Operating Revenues	<u>\$ 4,296,269</u>
Operating Expenses	
Supply and Treatment	\$ 1,293,072
Distribution	\$ 927,389
Administration, Billing, and Office	\$ 792,513
Board Expenses	\$ 12,798
Depreciation Expenses	\$ 569,773
Total Operating Expenses	<u>\$ 3,595,545</u>
Operating Income	\$ 700,724
Non-Operating Revenues / (Expenses)	
Gain/Loss on Sale of Asset	\$ 44,266
Interest Income	\$ 8,356
Interest Expense	\$ (100,871)
Total Non-Operating Revenues/Expenses	<u>\$ (48,249)</u>
Income Before Contributions	\$ 652,475
Capital Contributions	
Capital Contributions from Other Governments	\$ -
Capital Contributions from Grant	\$ 95,345
Total Capital Contributions	<u>\$ 95,345</u>
Change in Net Position	\$ 747,820
Net Position Beginning of Year (Restated)	\$ 9,905,408
Net Position End of Year	<u><u>\$ 10,653,228</u></u>

The notes to the general purpose financial statements are an integral part of this statement.

Scioto County Regional Water District #1
Scioto County
Statement of Cash Flows
For the Year Ending December 31, 2015

	2015
Cash flows from Operating Activities:	
Receipts from Customers	\$ 4,272,105
Receipts from Others	\$ 12,574
Payments to Suppliers and Vendors	\$ (1,274,949)
Payments to Employees	<u>\$ (1,995,386)</u>
Net cash provided by operating activities	<u>\$ 1,014,344</u>
Cash Flows from Capital and Related Financing Activities:	
Principal on Bond	\$ (85,000)
Interest on Bond	\$ (100,871)
OPWC principal	\$ (33,803)
Xerox principal	\$ (4,159)
Proceeds from Grant funds	\$ 95,345
Proceeds from Contributed Revenue	\$ -
Proceeds from Sale of Capital Assets	\$ 44,266
Payments for Capital Acquisitions	<u>\$ (996,167)</u>
Net cash used by capital financing activities	<u>\$ (1,080,389)</u>
Cash Flows from Investing Activities:	
Interest earned	<u>\$ 8,356</u>
Net cash Provided by Investing Activities	<u>\$ 8,356</u>
Net increase/decrease in cash and cash equivalents	\$ (57,689)
Cash and cash equivalents, January 1, 2015	<u>\$ 3,888,305</u>
Cash and cash equivalents, December 31, 2015	<u><u>\$ 3,830,616</u></u>

Scioto County Regional Water District #1
Scioto County
Statement of Cash Flows
For the Year Ending December 31, 2015

Reconciliation of Operating Income to Net Cash Provided by	
Operating Income	\$ <u>700,724</u>
Adjustments:	
Depreciation Expense	\$ 569,773
<i>Change in Assets</i>	
(Increase) Decrease in Accounts Receivable	\$ (11,588)
(Increase) Decrease in Prepaid Items	\$ (9,889)
(Increase) Decrease in Materials and Supplies Inventory	\$ (26,537)
(Increase) Decrease in Deferred Charges	\$ (66,882)
(Increase) Decrease in Deposits	\$ 900
(Increase) Decrease Deferred Outflows of Resources - Pensions	\$ (80,307)
<i>Change in Liabilities</i>	
Increase (Decrease) in Accounts Payable	\$ (146,220)
Increase (Decrease) in Unset Water Taps Payable	\$ -
Increase (Decrease) in Employee's Withholding Payable	\$ 95
Increase (Decrease) in Compensated Absences Payable	\$ 19,612
Increase (Decrease) in Customer Deposits Payable	\$ 1,525
Increase (Decrease) in Accrued Wages	\$ 7,037
Increase (Decrease) in Net Pension Liability	\$ 31,557
(Increase) Decrease Deferred Inflows of Resources - Pensions	\$ <u>24,545</u>
Total Adjustments	\$ <u>313,621</u>
Net Cash Provided by Operating Activities	\$ <u><u>1,014,345</u></u>

SCIOTO COUNTY REGIONAL WATER DISTRICT #1
SCIOTO COUNTY

Notes to the Basic Financial Statements
For the Year Ended December 31, 2015
(Continued)

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 Basic 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

SCIOTO COUNTY REGIONAL WATER DISTRICT #1
SCIOTO COUNTY

Notes to the Basic Financial Statements
For the Year Ended December 31, 2015
(Continued)

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measure Focus and Basic of Accounting (Continued)

net income is appropriate for capital maintenance, public policy management control, accountability or other purposes.

The District's operations are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation are included on the Statement of Net 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 estimated fair market value at the time received. Capital Assets are defined as assets with an initial, individual cost of more than \$1,000 and an estimated useful life in excess of three years. Depreciation of capital assets of the District is calculated utilizing the straight line method. All assets reported in the financial statements are at cost less accumulated depreciation.

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

Source of Supply	8 years
Transportation Equipment	5 years
Water Treatment Plant	40 years
Other Equipment	5 years
Distribution System & 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, 2015
(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 \$189,406.25. The District is also required to maintain accounts for the principal and interest payments on the bond.

Deferred Outflows and Deferred Inflows of Resources

Deferred outflows of resources represent a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expenses) until then. The District recorded a deferred outflow of resources for pensions and debt. The District also reports a deferred inflow of resources which represents an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenues) until that time. For the District this was for pensions.

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 fiscal year 2015, investments were limited to ***U.S. Treasury Obligations, Star Ohio, and Star Ohio Plus***. Except for nonparticipating investment contracts, investments are reported at fair value which is based on quoted market prices. Nonparticipating investment contracts such as repurchase agreements and nonnegotiable certificates of deposit are reported at cost.

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

SCIOTO COUNTY REGIONAL WATER DISTRICT #1
SCIOTO COUNTY

Notes to the Basic Financial Statements
For the Year Ended December 31, 2015
(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 2015 was **\$289,628**.

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 2015 were **\$37,293**.

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 between assets and liabilities. Net Investment in Capital Assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets.

Net position is reported as restricted when there are limitations imposed on their use either through external restrictions imposed by creditors, grantors, or laws 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.

SCIOTO COUNTY REGIONAL WATER DISTRICT #1
SCIOTO COUNTY

Notes to the Basic Financial Statements
For the Year Ended December 31, 2015
(Continued)

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 – CHANGE IN ACCOUNTING PRINCIPLE AND RESTATEMENT OF NET POSITION

For 2015, the District implemented the Governmental Accounting Standards Board (GASB) Statement No. 68, "Accounting and Financial Reporting for Pensions" and GASB Statement No. 71, "Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68." GASB 68 established standards for measuring and recognizing pension liabilities, deferred outflows of resources, deferred inflows of resources and expense/expenditure. The implementation of this pronouncement has the following effect on net position as reported December 31, 2014:

	Governmental Activities
Net position December 31, 2014	\$ 11,100,022
Adjustments:	
Net Pension Liability	\$ (1,365,603)
Deferred Outflow - Payments Subsequent to Measurement Date	\$ 170,988
Restated Net Position December 31, 2014	\$ 9,905,408

Other than employer contributions subsequent to the measurement date, the District made no restatement for deferred inflows/outflows of resources as the information needed to generate these restatements was not available.

NOTE 4 - 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.

SCIOTO COUNTY REGIONAL WATER DISTRICT #1
SCIOTO COUNTY

Notes to the Basic Financial Statements
For the Year Ended December 31, 2015
(Continued)

NOTE 4 - EQUITY IN POOLED CASH AND INVESTMENTS (Continued)

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

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

Interim monies may be 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.

SCIOTO COUNTY REGIONAL WATER DISTRICT #1
SCIOTO COUNTY

Notes to the Basic Financial Statements
For the Year Ended December 31, 2015
(Continued)

NOTE 4 - EQUITY IN POOLED CASH AND INVESTMENTS (Continued)

Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the Treasurer or qualified trustee or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

According to state law, public depositories must give security for all public funds on deposit. These institutions may either specifically collateralize individual accounts in lieu of amounts insured by FDIC, or may pledge a pool of government securities valued at least 105% of the total value of public monies on deposit at the institution. These securities must be obligation of or guaranteed by the United States and mature or be redeemable within 5 years of the date of the related repurchase agreement. State law does not require security for public deposits and investments to be maintained in the District's name.

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

Deposits At year end, the carrying amount of the District's deposits and the bank balance was **\$509,376**. Of the bank balance at year end 2015, \$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, 2015:

	Carrying Amount		Fair Value
Star Ohio	\$		\$
Star Plus	\$	3,165,605	\$ 3,165,605
Reserve Bond Trust - Cash Equivalents	\$	189,409	\$ 189,409
Reserve Bond Principal	\$	49,600	\$ 49,600
Reserve Bond Interest	\$	9,817	\$ 9,817
Total Investments	\$	3,414,431	\$ 3,414,431

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, 2015
(Continued)

NOTE 5 – CAPITAL ASSETS

A summary of the District's capital assets as of December 31, 2015, are as follows:

	2014	Additions	Deletions	2015
Capital Assets, Not Being Depreciated				
Land	\$ 884,333	\$ 4,060		\$ 888,393
Construction in Progress	\$ 1,098,244	790,090	545,719	\$ 1,342,618
Total Capital Assets, Not Being Depreciated	\$ 1,982,577	\$ 4,060	\$ -	\$ 2,231,011
 Capital Assets Being Depreciated				
Source of Supply	\$ 1,494,397	\$ 48,598		\$ 1,542,995
Water Treatment Plant	\$ 4,776,149	\$ 47,338		\$ 4,823,487
Distribution System	\$ 12,667,984	\$ 458,540		\$ 13,126,524
Transportation Equipment	\$ 738,545	\$ 4,219		\$ 742,764
Office Furniture & Equipment	\$ 239,005	\$ 39,170	\$ 20,795	\$ 257,380
Other Equipment	\$ 1,500,137	\$ 158,189	\$ 88,470	\$ 1,569,856
Total Capital Assets Being Depreciated	\$ 21,416,217	\$ 756,054	\$ 109,265	\$ 22,063,006
 Less Accumulated Depreciation				
Source of Supply	\$ (1,117,071)	\$ (43,249)		\$ (1,160,320)
Water Treatment Plant	\$ (3,499,033)	\$ (101,720)		\$ (3,600,753)
Distribution System	\$ (7,712,183)	\$ (315,140)		\$ (8,027,323)
Transportation Equipment	\$ (628,537)	\$ (37,321)		\$ (665,858)
Office Furniture & Equipment	\$ (201,827)	\$ (10,491)	\$ 12,477	\$ (199,841)
Other Equipment	\$ (1,165,016)	\$ (61,852)	\$ 88,470	\$ (1,138,398)
Less Accumulated Depreciation	\$ (14,323,667)	\$ (569,773)	\$ 100,947	\$ (14,792,493)
	\$ -			\$ -
Total Capital Assets Being Depreciated, Net	\$ 7,092,550	\$ 186,281	\$ 210,212	\$ 7,270,513
	\$ -			\$ -
Total Capital Assets, net	\$ 9,075,127	\$ 190,341	\$ 210,212	\$ 9,501,524

SCIOTO COUNTY REGIONAL WATER DISTRICT #1
SCIOTO COUNTY

Notes to the Basic Financial Statements
For the Year Ended December 31, 2015
(Continued)

NOTE 6 - DEBT OBLIGATIONS

A schedule of changes in bonds and other long-term obligations of the District during 2015, follows:

	Amount Outstanding 12/31/14	Additions	Deletions	Amount Outstanding 12/31/15	Amounts Due in One Year
Water System Revenue Refunding & Improvement Bonds (2011)	\$2,055,000	\$ -	\$ 85,000	\$1,970,000	\$ 90,000
OPWC Loans 1999-2013 (0.00%)	\$ 317,879	\$ -	\$ 33,803	\$ 284,076	\$ 33,803
Compensated Absences	\$ 163,726	\$ 19,612	\$ -	\$ 183,338	\$ 91,461
Net Pension Liability	\$1,365,603	\$ 31,557	\$ -	\$1,397,160	\$ 0
Total	<u>\$3,902,208</u>	<u>\$ 51,169</u>	<u>\$ 118,803</u>	<u>\$3,834,574</u>	<u>\$ 215,264</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, 2015 are as follows:

Year Ending	Improvement Bonds		OPWC Loans		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2016	\$ 90,000	\$ 96,550	\$ 33,803	\$ -	\$ 123,803	\$ 96,550
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	\$ -	\$ 122,775	\$ 87,138
2020	\$ 100,000	\$ 83,338	\$ 27,775	\$ -	\$ 127,775	\$ 83,338
2021-2025	\$ 580,000	\$ 343,063	\$ 77,118	\$ -	\$ 657,118	\$ 343,063
2026-2030	\$ 745,000	\$ 174,838	\$ 50,000	\$ -	\$ 795,000	\$ 174,838
2031	\$ 175,000	\$ 9,625	\$ -	\$ -	\$ 175,000	\$ 9,625
	<u>\$ 1,970,000</u>	<u>\$ 979,101</u>	<u>\$ 284,077</u>	<u>\$ -</u>	<u>\$ 2,254,077</u>	<u>\$ 979,101</u>

SCIOTO COUNTY REGIONAL WATER DISTRICT #1
SCIOTO COUNTY

Notes to the Basic Financial Statements
For the Year Ended December 31, 2015
(Continued)

NOTE 7 - LEASE

The District entered into an agreement to lease a copier during fiscal year 2011. 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 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 2015 totaled \$4,640.

The asset acquired through the capital lease is as follows:

	Amount Outstanding 12/31/14	Additions	Deletions	Amount Outstanding 12/31/15	Due In One Year
Xerox Copier (2011)	\$ 8,318	\$ -	\$ 4,159	\$ 4,159	\$4,159
Xerox Copier (2015)	\$ 0	\$ 5,642	\$ 0	\$ 5,642	\$1,128
Xerox Copier (2015)	\$ 0	\$17,557	\$ 0	\$17,557	\$3,511
	<u>\$ 8,318</u>	<u>\$23,199</u>	<u>\$ 4,159</u>	<u>\$27,358</u>	<u>\$8,798</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, 2015:

Year Ending December 31	Xerox Leases
2016	\$ 8,798.00
2017	\$ 4,639.00
2018	\$ 4,639.00
2019	\$ 4,639.00
2020	\$ 4,639.00
Total Lease Payments	<u>\$ 27,354.00</u>

NOTE 8 - 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.

SCIOTO COUNTY REGIONAL WATER DISTRICT #1
SCIOTO COUNTY

Notes to the Basic Financial Statements
For the Year Ended December 31, 2015
(Continued)

NOTE 8 - RISK MANAGEMENT (Continued)

OPRM coverage programs are developed specific to each member’s risk management needs and the related premiums for coverage are determined through the application of uniform underwriting criteria addressing the member’s exposure to loss, except OPRM retains 41.5% (effective November 1, 2011) 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, 2012 (and through October 2014) the plan increased its retention to 50% of the first \$250,000 casualty treaty. The Plan’s property retention remained unchanged from prior years. This change was made to balance the reinsurance market conditions. Members are only responsible for their self-retention (deductible) amounts, which vary from member to member. OPRM had 774 and 783 members as of December 31, 2013 and 2014 respectively.

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, 2014 and 2013.

	2014	2013	
Assets	\$ 14,830,185	\$ 13,774,304	
Liabilities	\$ (8,942,504)	\$ (7,968,395)	
Members Equity	\$ 5,887,681	\$ 5,805,909	

The complete audited financial statements for OPRM can be read at the Plan’s website www.ohioplan.org.

NOTE 9 – 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 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 does 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.

SCIOTO COUNTY REGIONAL WATER DISTRICT #1
SCIOTO COUNTY

Notes to the Basic Financial Statements
For the Year Ended December 31, 2015
(Continued)

NOTE 9 – POSTEMPLOYMENT BENEFITS (Continued)

The healthcare coverage provided by OPERS meets the definition of an Other Post Employment Benefit (OPEB) as described in GASB Statement 45. OPERS' eligibility requirements for post-employment health care coverage changed for those retiring on and after January 1, 2015. Please see Plan Statement in the OPERS 2013 CAFR for details.

The Ohio Revised Code permits, but does not mandate, OPERS to provide the OPEB Plan to its eligible members and beneficiaries. Authority to establish and amend the OPEB Plan is provided in Chapter 145 of the Ohio Revised Code.

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

Funding Policy

The Ohio Revised Code provides the statutory authority requiring public employers to fund post retirement health care coverage through their contributions to OPERS. A portion of each employer's contribution to OPERS is set aside for the funding of post retirement healthcare coverage.

Employer contribution rates are expressed as a percentage of the covered payroll of active members. In 2015, state and local employers contributed at a rate of 14.00% of covered payroll and public safety and law enforcement employers contributed at 18.10%. These are the maximum employer contribution rates permitted by the Ohio Revised Code. Active members do not fund the OPEB Plan.

OPERS' Post Employment Health Care plan was established under, and is administrated in accordance with, Internal Revenue Code 401(h). Each year, the OPERS Board of Trustees determines the portion of the employer contribution rate that will be set aside for funding of post employment health care benefits.

The portion of employer contributions allocated to health care for members in the Traditional Pension Plan and Combined Plan was 2% during calendar year 2015. Effective January 1, 2016, the portion of employer contributions allocated to healthcare remains at 2% for both plans, as recommended by the OPERS Actuary. The OPERS Board of Trustees is also authorized to establish rules for the retiree or their surviving beneficiaries to pay a portion of the health care benefits provided. Payment amounts vary depending on the number of covered dependents and the coverage selected.

The District's contributions allocated to fund post employments health care benefits for the year ended December 31, 2015 was \$29,458.

Changes to the health care plan were adopted by the OPERS Board of Trustees on September 19, 2012, with a transition plan commencing January 1, 2015. With the recent passage of pension legislation under SB 343 and the approved health care changes, OPERS expects to be able to consistently allocate 4 percent of the employer contributions toward the health care fund after the end of the transition period.

NOTE 10 - 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

SCIOTO COUNTY REGIONAL WATER DISTRICT #1
SCIOTO COUNTY

Notes to the Basic Financial Statements
For the Year Ended December 31, 2015
(Continued)

NOTE 10 - COMPENSATED ABSENCES (Continued)

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, 2015, the total vested liability for accumulated unpaid vacation, sick leave and compensatory time recorded was **\$183,338**.

NOTE 11 – 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.

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-

SCIOTO COUNTY REGIONAL WATER DISTRICT #1
SCIOTO COUNTY

Notes to the Basic Financial Statements
For the Year Ended December 31, 2015
(Continued)

NOTE 11 – DEFINED BENEFIT PENSION PLANS (Continued)

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. 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):

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
State and Local	State and Local	State and Local
Age and Service Requirements:	Age and Service Requirements:	Age and Service Requirements:
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
Formula:	Formula:	Formula:
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.

SCIOTO COUNTY REGIONAL WATER DISTRICT #1
SCIOTO COUNTY

Notes to the Basic Financial Statements
For the Year Ended December 31, 2015
(Continued)

NOTE 11 – 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	
2015 Statutory Maximum Contribution Rates		
Employer	14.0	%
Employee	10.0	%
2015 Actual Contribution Rates		
Employer:		
Pension	12.0	%
Post-employment Health Care Benefits	2.0	
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 was \$206,205 for year 2015.

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, 2014, 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:

Pension Liability	\$1,397,160
Proportion of the Net Pension Liability	0.011584%
Pension Expense	\$ 152,543

SCIOTO COUNTY REGIONAL WATER DISTRICT #1
SCIOTO COUNTY

Notes to the Basic Financial Statements
For the Year Ended December 31, 2015
(Continued)

NOTE 11 – DEFINED BENEFIT PENSION PLANS (Continued)

At December 31, 2015, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	OPERS
Deferred Outflows of Resources	
Net difference between projected and actual earnings on pension plan investments	\$ 74,548
District contributions subsequent to the measurement date	\$ 176,747
Total Deferred Outflows of Resources	\$ 251,295
Deferred Inflows of Resources	
Differences between expected and actual experience	\$ 24,545

\$176,747 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, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

	OPERS
Year Ending December 31:	
2016	\$ 7,248
2017	\$ 7,248
2018	\$ 16,870
2019	\$ 18,637
Total	\$ 50,003

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

SCIOTO COUNTY REGIONAL WATER DISTRICT #1
SCIOTO COUNTY

Notes to the Basic Financial Statements
For the Year Ended December 31, 2015
(Continued)

NOTE 11 – DEFINED BENEFIT PENSION PLANS (Continued)

each valuation. The total pension liability in the December 31, 2014, 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	4.25 to 10.05 percent including wage inflation
COLA or Ad Hoc COLA	3 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 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 6.95 percent for 2014.

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:

SCIOTO COUNTY REGIONAL WATER DISTRICT #1
SCIOTO COUNTY

Notes to the Basic Financial Statements
For the Year Ended December 31, 2015
(Continued)

NOTE 11 – DEFINED BENEFIT PENSION PLANS (Continued)

Asset Class	Target		Weighted Average	
	Allocation		Long-Term Expected	
			Real Rate of Return	
			(Arithmetic)	
Fixed Income	23.00	%	2.31	%
Domestic Equities	19.90		5.84	
Real Estate	10.00		4.25	
Private Equity	10.00		9.25	
International Equities	19.10		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.

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:

	1% Decrease (7.00%)	Current Discount Rate (8.00%)	1% Increase (9.00%)
District's proportionate share of the net pension liability	\$ 2,570,399	\$ 1,397,160	\$ 409,035

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.

REQUIRED SUPPLEMENTARY INFORMATION

SCIOTO COUNTY REGIONAL WATER DISTRICT #1
SCIOTO COUNTY

Required Supplementary Information
Schedule of the District's Proportionate Share of the Net Pension Liability
Ohio Public Employees Retirement System – Traditional Plan

	<u>2014</u>	<u>2013</u>
District's Proportion of the Net Pension Liability	0.011584%	0.011584%
District's Proportionate Share of the Net Pension Liability	\$ 1,397,160	\$ 1,365,603
District's Covered-Employee Payroll	\$ 1,419,049	\$ 1,400,346
District's Proportionate Share of the Net Pension Liability as a Percentage of its Covered-Employee Payroll	98.46%	97.52%
Plan Fiduciary Net Position as a Percentage of the Total Net Pension Liability	86.45%	83.36%

Amounts presented as of the District's measurement date which
is the prior fiscal year end.

SCIOTO COUNTY REGIONAL WATER DISTRICT #1
SCIOTO COUNTY

*Required Supplementary Information
Schedule of the District Contributions
Ohio Public Employees Retirement System – Traditional Plan*

	2015	2014
Contractually Required Contribution	\$ 206,205	\$ 198,666
Contributions in Relation to the Contractually Required Contribution	(206,205)	(198,666)
Contribution Deficiency (Excess)	\$ -	\$ -
District Covered – Employee Payroll	\$ 1,472,898	\$ 1,419,049
Contributions as a Percentage of Covered-Employee Payroll	14.00%	14.00%



Dave Yost • Auditor of State

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

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

To the Board of Directors:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the Scioto County Regional Water District #1, Scioto County, (the District) as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated May 8, 2017 wherein we noted that the District adopted Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27* and also GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*.

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. Therefore, unidentified material weaknesses or significant deficiencies may exist. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings that we consider a material weakness. We consider finding 2015-001 to be a material weakness.

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*.

District's Response to Finding

The District's response to the finding identified in our audit is described in the accompanying schedule of findings. We did not audit the District's response and, accordingly, we express no opinion on it.

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.



Dave Yost
Auditor of State

Columbus, Ohio

May 8, 2017

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

**SCHEDULE OF FINDINGS
DECEMBER 31, 2015**

FINDING NUMBER 2015-001

Material Weakness

When designing the public office's system of internal control and the specific control activities, management should consider ensuring that accounting records are properly designed, verifying the existence and valuation of assets and liabilities and periodically reconcile them to the accounting records, and performing analytical procedures to determine the reasonableness of financial data.

The following conditions existed in the District's financial reporting:

Statement of Net Position:

- Deferred debt charges of \$38,333 and deferred pension related charges of \$74,548 were combined into \$112,881 deferred outflows - deferred charges. Both deferred outflows should have been listed separately reported on the Statement of Net Position. In addition, the deferred outflows - Pension was understated by \$176,747 on the Statement of Net Position and should have been \$251,295. Total Deferred Outflows should have been \$289,628.
- Accrued wages of \$46,868 was misclassified as Accounts Payable. Accrued wages should have been separately reported on the Statement of Net Position. Accounts Payable should have been \$84,235.
- Net pension liability of \$1,397,161 was listed on the Statement of Net Position. However the amount was not included in the total for Non-Current Liabilities and Total Liabilities. Therefore Non-Current Liabilities and Total Liabilities were off by that respective amount. Total Noncurrent Liabilities should have been \$3,637,869 and Total Liabilities should have been \$4,025,625.
- Investment in Capital Assets, Net of Related Debt was understated by \$34,174 on the Statement of Net Position and unrestricted net position was overstated by \$1,166,246 on the Statement of Net Position. Investment in Capital Assets Net of Related Debt should have been \$7,258,422 and Unrestricted Net Position should have been \$3,145,980. These errors were due to misclassification of Net Position and failure to properly implement GASB 68 pension effect on Net Position. Total Net Position was overstated by \$1,132,072 and should have been \$10,653,228.
- The Statement of Net Position was out of balance by \$1,308,825. Assets and Deferred Outflows totaled \$14,526,645 while Liabilities, Deferred Inflows, and Net Position totaled \$15,835,470.

Statement of Revenues, Expenses, and Changes in Net Position:

- The pension expense was overstated on the Statement of Revenues and Expenses. Supply and treatment expenses were overstated by \$2,067, distribution expense was overstated by \$1,968, and administration, billing, and office expenses were overstated by \$1,724. Supply and Treatment Expenses should have been \$1,293,072, Distribution Expense should have been \$927,389, and Administration, Billing, and Office Expense should have been \$792,513.
- Total Operating Expenses was overstated by \$5,759 and should have been \$3,595,545.
- Operating Income was understated by \$5,759 and should have been \$700,724.
- Income before Contributions was understated by \$5,759 and should have been \$652,475.
- Change in Net Position was understated by \$5,759. It should have been \$747,820.

**FINDING NUMBER 2015-001
(Continued)**

- Beginning Net Position should have noted that it was restated Net Position and refer to the Financial Note explaining the Beginning Net Position restatement due to the implementation of GASB 68 (the District also omitted this restatement note; See Note 3 Below). The Net Position amount was overstated by \$1,194,614. It should have been \$9,905,408.
- Ending Net Position was overstated by \$1,188,855. It should have been \$10,653,228.

Statement of Cash Flows:

- The Statement of Cash Flows understated Operating Activities - Payments to Suppliers and Vendors by \$31,584. It should have been \$1,274,949.
- The Statement of Cash Flows understated Operating Activities - Payments to Employees by \$11,409. It should have been \$1,995,386.
- The Statement of Cash Flows Net Cash provided by Operating Activities was overstated by \$42,993. It should have been \$1,014,344.
- The Statement of Cash Flows listed Capital and Related Financing Activities Xerox Principal as a \$4,159 receipt instead of a \$4,159 expense.
- The Statement of Cash Flows understated Capital and Financing Activities - Payments for Capital Acquisitions by \$42,281. It should have been \$996,167.
- The Statement of Cash Flows listed Net Cash Provided by Capital Financing Activities. It should state Net Cash Used by Capital Financing Activities. It under reported the amount by \$50,599. It should have been \$(1,080,389).
- The Statement of Cash Flows is out of balance overall by \$93,591. The Net increase/decrease in cash and cash equivalents is listed as \$35,902, but it is \$(57,689) after proposed cash flow adjustments were totaled.
- The Statement of Cash Flow Reconciliation Operating Income was understated by \$5,759. It should have been \$700,724.
- The Statement of Cash Flow Reconciliation excluded an increase of \$80,307 in deferred outflow - pension assets, an increase of \$24,545 in deferred inflows - pension liabilities, and an increase of \$31,557 in net pension liability.
- The Statement of Cash Flow Reconciliation listed a decrease of accounts payable of \$139,183. However accounts payable decreased \$146,220 and accrued wages payable increased \$7,037.
- Total Net Cash Provided by Operating Activities was overstated by \$42,991. It should have been \$1,014,345.
- The Statement of Cash Flows failed to state the notes to the basic financial statements are an integral part of this statement.

FINDING NUMBER 2015-001
(Continued)

Notes to the Financial Statements:

- Note 2 did not have a section for Accounts Receivable information, Restricted Assets or Deferred Inflow and Deferred Outflow information.
- Note 2 Pension section did not have any information on deferred inflows and deferred outflows related to pension and pension expense
- Note 2 incorrectly understated the Deferred Charges expense by \$176,747. It should have been \$289,628.
- Note 3 Deposits section understated the carrying amount of the District's deposits and bank balance by \$28,363. It should have been \$509,376.
- Note 3 Investments Table excluded the District's Reserve Account for Bond Interest of \$9,817.
- Note 3 Investment totals were understated by \$9,817 for Carrying Value and Fair Value. They should have been \$3,414,431 each respectively.
- Note 4 Capital Assets Table omitted \$790,090 of Construction in Progress additions and omitted \$545,719 of Construction in Progress Deletions of \$545,719.
- Note 4 Capital Assets Table Total Capital Assets, Not Being Depreciated additions total was understated by \$790,090 and the deletions total was understated by \$545,719. The amounts should have been \$794,150 and \$545,719 respectively.
- Note 5 OPWC Loans 1999-2013 did not disclose accurate debt obligations activity. The OPWC Loans Amount Outstanding at 12/31/15 was overstated by \$46,303. It should have been \$284,076.
- Note 5 Long Term Debt Liabilities Table excluded Net Pension Liability. It should have listed a line item for Net Pension Liability and included the beginning balance of \$1,365,603, the additions of \$31,557, and the ending balance of \$1,397,160.
- Note 5 Long Term Debt Liabilities Table totals were understated. The beginning balance was understated by \$1,365,603, the additions were understated by \$31,557, and the ending balance was understated by \$1,350,857. The respective totals should have been \$3,902,208, \$51,169, and the ending balance should have been \$3,834,574.
- Note 5 Future Long Term Debt Obligations total amounts were overstated. The total Improvement Bonds Principal total amount did not foot. It listed \$2,055,000 and should have been \$1,970,000. The total Improvement Bonds Interest total amount did not foot. It listed as \$1,077,988 and should have been \$979,101. The OPWC Principal total did not foot and was overstated. It listed as \$351,682 and should have been \$284,076. The overall Principal total did not foot and was overstated. It listed as \$2,406,682 and should have been \$2,287,879. The overall Interest did not foot and was overstated. It listed \$1,077,988 and should have been \$979,101.
- Note 5 Future Long Term Debt Obligations table overstated OPWC Principal by \$33,803.
- Note 6 Leases did not list the lease totals at the bottom of the table. It should have listed the total Amount Outstanding on 12/31/14 of \$8,318, Additions of \$23,199, Deletions of \$4,159, the total Amount Outstanding on 12/31/15 of \$27,358, and total Due in One Year of \$8,798.

**FINDING NUMBER 2015-001
(Continued)**

- Note 8 Pension Plan GASB 27 disclosure was replaced by GASB 68 disclosure. Note 8 should have been removed from the financial notes.
- Note 9 Postemployment Benefits understated the District's contributions to health care by \$16,164. It should have been \$29,458.
- Note 11 Defined Benefit Pension overstated the District's contractually required contribution by \$25,792. It should have been \$206,205.
- Note 11 Defined Benefit Pension understated the District's Proportionate Share of the Net Pension Liability by \$1,226,172. It should have been \$1,397,160.
- Note 11 Defined Benefit Pension omitted disclosure about the District's pension expense.
- Note 11 Defined Benefit Pension omitted listing deferred outflows and deferred inflows of resources related to pension expense.
- Note 11 Defined Benefit Pension omitted listing the Pension Expense Schedule for the subsequent four years.
- Note 11 Defined Benefit Pension omitted disclosure about Sensitivity of the District's Proportional Share of the Net Pension Liability to Change in Discount Rate.
- Note 13 Changes in Accounting Principles omitted disclosure on the Restatement of Net Position for GASB 68.

The District made all the adjustments noted above to the Financial Statements and Notes except for the error on the Statement of Cash Flows Ending Balance; the Statement of Net Position Cash and Investments amount did not tie to the Statement of Cash flows by \$93,591. This error was immaterial and did not have any effect on the opinion.

Failure to properly report expenditures could result in inaccurate financial statements and notes.

We recommend due care be exercised when posting entries to the financial records and financial statement and note preparation to prevent errors and assist in properly reflecting the District's financial activity in the underlying accounting records to assist in properly presenting all activities in the financial statements and notes.

Officials' Response:

District officials provided a lengthy response which included the following excerpts:

We have always received cooperation and help from the private accounting firms and the State Auditor regional offices in making appropriate changes to our financial statements during our annual audit so that they fairly and accurately represent our organization's financial condition.

**FINDING NUMBER 2015-001
(Continued)**

We are not questioning that some changes needed to occur. Specifically with the implementation of the new GASB Statements No. 68 and 71 Accounting and Financial Reporting for Pensions. What I feel the report fails to show is that many of the changes listed are a result of a differing calculation for the pension expense and liability which then filtered through all of the statements which are now individually listed under the finding. In past audits, these changes would have been made to the financial statements with the assistance of the auditing staff and communicated to our staff without penalty. In addition, the small changes such as modifying words from Net Assets to Net Position or adding a sentence or removing a word were simply made with cooperation between our staff and the auditing staff without any reflection of those changes in the Audit Report

There is much discussion in Finding 2015-001 regarding the Statement of Cash Flows. When I received the changes recommended to the Statement of Cash Flows, it did not balance to the other Financial Statements. I questioned how this would be resolved. I was told to “plug the number” because it was immaterial. If the total of all the changes made to this statement are immaterial and we are to just “plug” a number then what could possibly be the motivation for changing any of the numbers. If the total change was immaterial, then the individual changes would seem to be immaterial as well.

After carefully reviewing the contents of each bullet under Finding 2015-001, they could be summarized with approximately 57% being related to the GASB 68/71 implementation. We have consulted with an IPA to complete this information for us for 2016 and believe we have addressed this deficiency. Approximately 12% of the bulleted items were related to the Cash Flow Statement which changes were shown to be immaterial. General editing changes accounted for approximately 14% of the items indicated, and the final 17% were primarily related to the presentations for Debt and Investments in the Notes to the Financial Statements.

Auditor of State Conclusion:

District management is responsible for the completeness and accuracy of the financial statements in accordance with Generally Accepted Accounting Principles (GAAP). Audit standards require that we communicate internal control weaknesses to management. We reported certain immaterial errors with the material errors in the finding because taken as a whole, we believe that such a large number of errors represents a material weakness.

Also Generally Accepted Government Auditing Standards section 3.14 describes threats to an auditor's independence that must be considered. These threats to the auditor's independence include:

- Self-review threat - the threat that an auditor or audit organization that has provided nonaudit services will not appropriately evaluate the results of previous judgments made or services performed as part of the nonaudit services when forming a judgment significant to an audit;
- Management participation threat - the threat that results from an auditor's taking on the role of management or otherwise performing management functions on behalf of the entity undergoing an audit

By assisting the District in the interpretation and implementation of GAAP, auditors run the risk of making decisions that are the responsibility of District management, and then reviewing their own work. This would be a clear violation of independence standards.



Dave Yost • Auditor of State

SCIOTO COUNTY REGIONAL WATER DISTRICT

SCIOTO COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
JUNE 20, 2017**