JEFFERSON WATER AND SEWER DISTRICT
FRANKLIN COUNTY

REGULAR AUDIT

FOR THE YEAR ENDED DECEMBER 31, 2016

Dave Yost • Auditor of State

JEFFERSON WATER AND SEWER DISTRICT
FRANKLIN COUNTY
DECEMBER 31, 2016

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INDEPENDENT AUDITOR'S REPORT

Jefferson Water and Sewer District
Franklin County
6455 Taylor Road
Blacklick, Ohio 43004

To the Board of Trustees:

Report on the Financial Statements

We have audited the accompanying financial statements of Jefferson Water and Sewer District, Franklin County, Ohio (the District), as of and for the year ended December 31, 2016 and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for preparing and fairly presenting these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes designing, implementing, and maintaining internal control relevant to preparing and fairly presenting financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to opine on these financial statements based on our audit. We audited in accordance with auditing standards generally accepted in the United States of America and the financial audit standards in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require us to plan and perform the audit to reasonably assure the financial statements are free from material misstatement.

An audit requires obtaining evidence about financial statement amounts and disclosures. The procedures selected depend on our judgment, including assessing the risks of material financial statement misstatement, whether due to fraud or error. In assessing those risks, we consider internal control relevant to the District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not to the extent needed to opine on the effectiveness of the District's internal control. Accordingly, we express no 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 Jefferson Water and Sewer District, Franklin County as of December 31, 2016 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.

Other Matters

Prior Period Financial Statements Audited by a Predecessor Auditor

The financial statements of the Jefferson Water and Sewer District, Franklin County, Ohio (the District), as of and for the year ended December 31, 2015, were audited by a predecessor auditor whose report dated June 14, 2016, expressed an unmodified opinion on those statements and noted the District adopted Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions - an Amendment of GASB Statement No. 27* and No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an Amendment of GASB Statement No. 68*.

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 December 14, 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

Dave Yost
Auditor of State
Columbus, Ohio

December 14, 2017

This discussion and analysis, along with the accompanying financial reports, of Jefferson Water and Sewer District (the District) is designed to provide our customers, creditors and other interested parties with a general overview of the District and its financial activities.

FINANCIAL HIGHLIGHTS

The total assets and deferred outflows of resources of the District exceeded liabilities and deferred inflows of resources on December 31, 2016 and 2015 by $16,229,800 and $13,940,352, respectively. The District's net position increased by $2,289,448 (16.42%) in 2016 and by $163,060 (1.2%) in 2015.

The District's operating revenues increased by $669,294 (14.52%) in 2016 and decreased by $171,350 (-3.6%) in 2015. Operating expenses (excluding depreciation expense) decreased by $141,497 (-4.11%) in 2016 and increased by $596,047 (20.9%) in 2015. Depreciation expense increased $60,479 (6.85%) in 2016 and increased $2,686 (0.3%) in 2015.

OVERVIEW OF BASIC FINANCIAL STATEMENTS

The District is a single enterprise fund using proprietary fund accounting, similar to accounting used by private sector businesses. The basic financial statements are presented using the accrual basis of accounting.

The **Statements of Net Position** include all of the District's assets, liabilities and deferred inflows/outflows of resources. These statements provide information about the nature and amounts of investments in resources (assets) owned by the District, and obligations owed by the District (liabilities) on December 31, 2016. The District's net position is the difference between assets plus deferred outflows of resources and liabilities plus deferred inflows of resources.

The **Statements of Revenues, Expenses and Changes in Net Position** provide information on the District's operations over the past two years and the success of recovering all its costs through user fees, charges, assessments, and other income. Revenues are reported when earned and expenses are reported when incurred.

The **Statements of Cash Flows** provide information about the District's cash receipts and cash disbursements. They summarize the net changes in cash resulting from operating, investing and financing activities.

STATEMENTS OF NET POSITION

Table 1 summarizes net position of the District. Capital assets are reported less accumulated depreciation. "Net Investment in Capital Assets" are capital assets less outstanding debt that was used to acquire those assets.

Table 1

	2016	2015	Change	2014	Change
Current and Other Assets	$5,943,185	$4,398,623	$1,544,562	$4,869,386	($470,763)
Capital Assets, Net	22,695,709	21,656,439	1,039,270	21,984,395	(327,956)
Total Assets	28,638,894	26,055,062	2,583,832	26,853,781	(798,719)
Deferred Outflows of Resources					
Pension	339,379	104,402	234,977	0	104,402
Total Deferred Outflows of Resources	339,379	104,402	234,977	0	104,402
Long Term Liabilities	10,063,581	10,530,645	(467,064)	10,675,448	(144,803)
Current and Other Liabilities	2,668,623	1,678,487	990,136	1,915,082	(236,595)
Total Liabilities	12,732,204	12,209,132	523,072	12,590,530	(381,398)
Deferred Inflows of Resources					
Pension	16,269	9,980	6,289	0	9,980
Total Deferred Inflows of Resources	16,269	9,980	6,289	0	9,980
Net Position					
Net Investment in Capital Assets	12,730,699	10,980,992	1,749,707	10,193,190	787,802
Unrestricted	3,499,101	2,959,360	539,741	4,070,061	(1,110,701)
Total Net Position	$16,229,800	$13,940,352	$2,289,448	$14,263,251	($322,899)

* - The difference between total net position between 2015 and 2014 does not agree to the Table 2 change in net position since the 2014 balance above was not restated for GASB 68 and GASB 71.

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 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.

The District's net position increased by $2,289,448 (16.42%) in 2016 and decreased $322,899 (-2.26%) in 2015 after excluding the effects of the GASB 68 and 71 implementations in 2015 as shown on page 4.

The District's assets increased by $2,583,832 in 2016. The increase is primarily a result of an increase in cash and cash equivalents and investments and capital assets. The increase in capital assets is primarily a result of water and sewer line donations. The increase in cash and cash equivalents and investments is primarily a result of an excess of cash receipts over cash disbursements. Liabilities increased $523,072 in 2016. This increase is primarily due to an increase in unearned revenue and the net pension liability which was partially offset by principal payments on debt.

Unrestricted net position increased by $539,741 (18.23%) in 2016. Unrestricted assets may be used without constraints established by bond covenants or other legal requirements. Net investment in capital assets increased by $371,389 from 2016 to 2015 primarily due to additions of capital assets and payments on debt balances which were only partially offset by depreciation expense.

The District's assets decreased by $798,719 in 2015. The decrease is primarily a result of a decrease in capital assets, cash and cash equivalents and investments. The decrease in capital assets is primarily a result of current year depreciation in excess of additions. The decrease in cash and cash equivalents and investments is primarily a result of an excess of cash disbursements over cash receipts. Liabilities decreased $381,398 in 2015. This decrease is primarily due to principal payments on debt, which was partially offset by an increase to accounts payable and the net pension liability.

Unrestricted net position (excluding the restatement of beginning net position for GASB 68 and GASB 71 implementation) decreased by $1,110,701 in 2015. Unrestricted assets may be used without constraints established by bond covenants or other legal requirements. Net investment in capital assets increased by $787,802 from 2014 to 2015 primarily due to additions of capital assets and payments on debt balances which were only partially offset by an increase in depreciation expense.

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

Table 2 below summarizes the changes in Revenues, Expenses and Net Position.

Table 2

	2016	2015	Change	2014	Change
Operating Revenues	$5,276,623	$4,607,329	$669,294	$4,778,679	($171,350)
Total Operating Revenues	5,276,623	4,607,329	669,294	4,778,679	(171,350)
Non-Operating Revenues	177,241	76,644	100,597	79,323	(2,679)
Total Revenues	5,453,864	4,683,973	769,891	4,858,002	(174,029)
Operating Expenses (Excluding Depreciation)	3,302,849	3,444,346	(141,497)	2,848,299	596,047
Depreciation Expense	943,302	882,823	60,479	880,137	2,686
Total Operating Expenses	4,246,151	4,327,169	(81,018)	3,728,436	598,733
Non-Operating Expenses	561,776	564,552	(2,776)	634,804	(70,252)
Total Expenses	4,807,927	4,891,721	(83,794)	4,363,240	528,481
Capital Contributions	1,643,511	370,808	1,272,703	285,652	85,156
Changes in Net Position	2,289,448	163,060	2,126,388	780,414	(617,354)
Net Position at Beginning of Year	13,940,352	13,777,292 *	163,060	13,482,837	294,455
Net Position at End of Year	$16,229,800	$13,940,352	$2,289,448	$14,263,251	($322,899)

*- The difference between 2015 and 2014 net position doesn't agree to the change in net position for 2015 due to the District not restating the 2014 financial statements for GASB 68 and GASB 71.

Operating revenues increased by $669,294 from 2015 to 2016 which is primarily due to an increase in charges for services and tap fees.

Operating expenses decreased by $81,018 from 2015 to 2016 primarily due to an decrease in plant operations related expenses for sewer treatment as the issues denoted in 2015 were corrected during 2016.

Operating revenues decreased by $171,350 from 2014 to 2015 which is primarily due to a decrease in charges for service and tap fees.

Operating expenses increased by $598,733 from 2014 to 2015 primarily due to an increase in plant operations related expenses for sewer treatment costs and capital recovery fees to the City of Columbus. It was discovered in 2015 that meters were not working properly and needed to be recalibrated.

CAPITAL ASSETS

The District had $35,529,417 and $33,642,412 invested in depreciable capital assets (before depreciation) at the end of 2016 and 2015, respectively. This amount is an increase of $1,887,005 (5.61%) from 2015 to 2016 and an increase of $394,735 (1.19%) from 2014 to 2015. The increase in 2016 is primarily the result of donated water and sewer lines and the completion of construction projects. The increase in 2015 is primarily the result of donated water and sewer lines. Additional information regarding capital assets can be found in Note D to the Basic Financial Statements.

Table 3

	2016	2015	Change	2014	Change
Non-depreciable Capital Assets					
Land and land easements	$777,732	$671,076	$106,656	$671,076	$0
Construction in progress	237,202	265,050	(27,848)	104,918	160,132
Total Non-depreciable Capital Assets	1,014,934	936,126	78,808	775,994	160,132
Depreciable Capital Assets					
Buildings and improvements	5,277,459	5,277,459	0	5,270,703	6,756
Completed construction	16,001,556	15,813,262	188,294	15,807,860	5,402
Furniture and general equipment	2,773,993	2,755,302	18,691	2,743,532	11,770
Vehicles and accessories	232,822	196,313	36,509	196,313	0
Donated assets	11,243,587	9,600,076	1,643,511	9,229,269	370,807
Totals Before Accumulated Depreciation	35,529,417	33,642,412	1,887,005	33,247,677	394,735
Accumulated Depreciation	(13,848,642)	(12,922,099)	(926,543)	(12,039,276)	(882,823)
Net Depreciable Capital Assets	21,680,775	20,720,313	960,462	21,208,401	(488,088)
Total Capital Assets	$22,695,709	$21,656,439	$1,039,270	$21,984,395	($327,956)

DEBT

The District issues long term debt to finance much of its construction. With the exception of the Rural Development bonds and the PNC Financial Corporation loan, the Ohio Water Development Authority (OWDA) loans were used to finance most general improvement projects.

Table 4

	2016	2015	Change	2014	Change
Ohio Water Development Authority (OWDA)	$5,454,210	$5,936,147	($481,937)	$6,826,305	($890,158)
Rural Development	4,270,800	4,339,300	(68,500)	4,404,900	(65,600)
PNC Financial Corp	240,000	400,000	(160,000)	560,000	(160,000)
Total Long Term Debt	9,965,010	10,675,447	(710,437)	11,791,205	(1,115,758)
Less: Current Maturities	743,415	712,881	30,534	1,115,757	(402,876)
Net Total Long Term Debt	$9,221,595	$9,962,566	($740,971)	$10,675,448	($712,882)

The District's debt is paid from operating revenues generated by the District. For additional information regarding debt, please see note F to the basic financial statements.

CASH

Cash and cash equivalents were $3,470,814 on December 31, 2016 and $1,447,517 on December 31, 2015.

CONTACT INFORMATION

Questions regarding this report and requests for additional information should be forwarded to Mark Williams, Jefferson Water and Sewer District, 6455 Taylor Rd., Blacklick, Ohio 43004 or (614) 864-0740.

Jefferson Water and Sewer District

Statements of Net Position

As of December 31, 2016

(With Comparative Amounts for 2015)

	2016	2015
CURRENT ASSETS:		
Cash and cash equivalents	$3,212,366	$1,189,069
Investments	1,462,292	2,039,091
Accounts receivable	471,486	441,818
Inventory	148,166	229,994
Prepaid expense	197,290	43,775
Intergovernmental receivable	50,576	9,477
Current portion of notes receivable - tap fees	0	2,194
Total Current Assets	5,542,176	3,955,418
RESTRICTED ASSETS:		
Restricted cash and cash equivalents	258,448	258,448
Water assessments receivable	92,453	123,750
Sewer assessments receivable	50,108	61,007
Total Restricted Assets	401,009	443,205
CAPITAL ASSETS:		
Capital assets, not being depreciated	1,014,934	936,126
Capital assets, net of accumulated depreciation	21,680,775	20,720,313
Total Capital Assets	22,695,709	21,656,439
Total Assets	28,638,894	26,055,062
DEFERRED OUTFLOWS OF RESOURCES:		
Pensions	339,379	104,402
Total Assets and Deferred Outflows of Resources	$28,978,273	$26,159,464
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION		
CURRENT LIABILITIES:		
Accounts payable	$478,985	$447,764
Accrued wages and benefits and withholding payroll expenses	159,169	149,584
Current portion of long term debt	743,415	712,881
Accrued interest payable	318,737	284,059
Customer deposits- payable	85,780	84,199
Unearned revenue	882,537	0
Total Current Liabilities	2,668,623	1,678,487
LONG TERM LIABILITIES:		
Long term debt less current portion	9,221,595	9,962,566
Net Pension Liabilities	841,986	568,079
Total Long Term Liabilities	10,063,581	10,530,645
Total Liabilities	12,732,204	12,209,132
DEFERRED INFLOWS OF RESOURCES:		
Pensions	16,269	9,980
NET POSITION:		
Net Investment in capital assets	12,730,699	10,980,992
Unrestricted	3,499,101	2,959,360
Total Net Position	16,229,800	13,940,352
Total Liabilities, Deferred Inflows of Resources and Net Position	$28,978,273	$26,159,464

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

Jefferson Water and Sewer District

Statements of Revenues, Expenses and Changes in Net Position

As of December 31, 2016

(With Comparative Amounts for 2015)

	2016	2015
OPERATING REVENUES:		
Charges for services	$4,554,284	$4,305,287
Tap fees	581,309	173,650
Miscellaneous income	141,030	128,392
Total Operating Revenues	5,276,623	4,607,329
OPERATING EXPENSES:		
Plant operations	1,935,218	2,321,829
Salaries and payroll related expenses	1,096,802	966,985
General and administration expenses	270,829	155,532
Depreciation	943,302	882,823
Total Operating Expenses	4,246,151	4,327,169
Operating Income	1,030,472	280,160
NON-OPERATING INCOME AND (EXPENSES):		
Interest income	48,070	76,644
Intergovernmental	129,171	0
Interest expense	(561,776)	(564,552)
Total Nonoperating Income (Expenses)	(384,535)	(487,908)
Increase (Decrease) In Net Position before Capital Contributions	645,937	(207,748)
Capital Contributions - Donated Lines and Pump Station	1,643,511	370,808
Increase In Net Position	2,289,448	163,060
Net Position, Beginning of Year	13,940,352	13,777,292
Net Position, End of Year	$16,229,800	$13,940,352

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

Jefferson Water and Sewer District

Statements of Cash Flows

As of December 31, 2016

(With Comparative Amounts for 2015)

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from customers	$5,990,656	$4,566,786
Cash received from other operating income	141,030	128,392
Cash payments to suppliers for goods and services	(2,246,513)	(2,263,279)
Cash payments for employee services and benefits	(1,041,998)	(945,923)
Net Cash Provided by Operating Activities	2,843,175	1,485,976
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:		
Customer Deposits	1,581	(15,995)
Net Cash Provided by/(Used for) Non-Capital Financing Activities	1,581	(15,995)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Construction of water and sewer projects and other capital acquistions	(339,061)	(184,060)
Proceeds from construction loans	2,444	0
Principal payments on construction loans	(712,881)	(1,115,757)
Interest payments on construction loans	(527,098)	(599,798)
Intergovernmental revenue	88,072	0
Special assessment collections - principal	42,196	38,576
Special assessment collections - interest	13,287	16,170
Net Cash Used for Capital and Related Financing Activities	(1,433,041)	(1,844,869)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Sale of investments	576,799	136,674
Interest received on bank accounts	34,783	60,474
Net Cash Provided by (Used for) Investing Activities	611,582	197,148
Net Increase (Decrease) In Cash and Cash Equivalents	2,023,297	(177,740)
Cash and Cash Equivalents, Beginning of the Year	1,447,517	1,625,257
Cash and Cash Equivalents, End of the Year	$3,470,814	$1,447,517
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating Income	$1,030,472	$280,160
ADJUSTMENTS TO RECONCILE OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Depreciation	943,302	882,823
CHANGES IN NET ASSETS AND LIABILITIES:		
(Increase)/Decrease in accounts receivable	(29,668)	75,018
(Increase) in prepaid expense	(153,515)	(2,176)
Decrease in inventory	81,828	44,931
Decrease in notes receivable	2,194	0
(Increase) in deferred outflows of resources - pensions	(234,977)	(35,113)
Increase/(Decrease) in accounts payable (operating)	31,221	206,440
Increase in accrued wages and benefits and withholding payroll taxes	9,585	11,082
Increase in unearned revenue	882,537	0
Increase in net pension liability	273,907	12,831
Increase in deferred inflows of resources - pensions	6,289	9,980
Total Adjustments	1,812,703	1,205,816
Net Cash Provided by Operating Activities	$2,843,175	$1,485,976
NONCASH TRANSACTIONS		
Donated developer lines and pump station	$1,643,511	$0

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

NOTE A – NATURE OF ORGANIZATION

Jefferson Water and Sewer District (the "District") was created by the Court of Common Pleas of Franklin County to provide water and sewer services to the residents of Jefferson Township in accordance with the provisions of section 6119.et.seq. of the Ohio Revised Code. The District is managed by a Board comprised of five appointed trustees.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity:

The reporting entity is comprised of the primary government, component units, and other organizations that are included to ensure that the financial statements of the District are not misleading. The primary government consists of all funds, departments, boards, and agencies that are not legally separate from the District. For the District, this includes general operations and water and sewer related activities of the District.

In accordance with the provisions of Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*, and GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units* (an amendment of GASB Statement No. 14), the accompanying financial statements include only the accounts and transactions of the District. Under the criteria specified in these GASB Statements, the District has no component units nor is it considered a component unit of the State of Ohio. The District is considered, however, a political subdivision of the State of Ohio. These conclusions regarding the financial reporting entity are based on the concept of financial accountability. The District is not financially accountable for any other organizations. This is evidenced by the fact that the District is a legally and fiscally separate and distinct organization. The District is solely responsible for its finances. The District is empowered to issue debt payables solely from District revenues.

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. Based upon the application of these criteria, the District has no component units.

The significant accounting policies followed in the preparation of these financial statements conform to accounting principles generally accepted in the United States of America for local governmental units as prescribed in the statements issued by the Governmental Accounting Standards Board and other recognized authoritative sources. A summary of the significant accounting policies consistently applied in preparation of the accompanying financial statements follows:

1. **Basis of Presentation – Fund Accounting**

The accounts of the District are organized on the basis of funds, each of which is considered a separate accounting entity. The District has created a single type of fund and a single fund within that fund type. The fund is accounted for by a separate set of self-balancing accounts that comprise its assets, deferred outflows of resources, liabilities, deferred inflows of resources, net position, revenues, and expenses. This fund accounts for the governmental resources allocated to it for the purpose of carrying on specific activities in accordance with laws, regulations or other restrictions. The fund type, which the District uses, is described below:

Proprietary Fund Type – This fund type accounts for operations that are organized to be self-supporting through user charges. The fund included in this category used by the District is the Enterprise Fund.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Enterprise Fund – This fund is established to account for operations that are financed and operated in a manner similar to private business enterprises where the intent is that costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

2. **Measurement Focus and Basis of Accounting**
The District's operations are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets, all liabilities, and all deferred inflows/outflows of resources associated with operations are included on the statements of net position. The operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in total net position. The accounting records are maintained on the accrual basis of accounting for financial reporting purposes.

3. **Budgetary Process**
The Ohio Revised Code requires that each fund be budgeted annually. The District has adopted a budget for the years ended December 31, 2016 and 2015, and passed annual appropriations and resolutions.

Appropriations – Budgetary expenditures (i.e., disbursements and encumbrances) may not exceed appropriations at the fund, function or object level of control, and appropriations may not exceed estimated resources. The District must annually approve appropriation measures and subsequent amendments. Appropriations lapse at year-end.

Estimated Resources – Estimated resources include estimates of cash to be received (budgeted receipts) plus unencumbered cash as of January 1.

Encumbrances – The Ohio Revised Code requires the District to reserve (encumber) appropriations when commitments are made.

4. **Revenue Recognition**
Revenues for the service fees are recorded in the period the service is provided. Revenue for tap fees from developers is recorded when construction of the main water and sewer lines to a development is complete and the District and the developer have satisfied the terms of the tap agreement. The principal portion of tap fee revenues from customer five-year notes receivable is recognized in the year the note is executed; interest from the notes receivable is recognized in the year earned. All other revenue is recognized when earned.

5. **Accounts Receivable**
Accounts receivable are shown at their net realizable value. The direct write-off method is used to record bad debts. Uncollectible accounts receivable are charged to operations during the period in which they are determined to be uncollectible. The results of using the direct write-off method closely approximate the reserve method of accounting for receivables. Bad debts are only recorded after all efforts for collection are exhausted, including certifying delinquent accounts to the county auditor, which are attached to real estate tax billings.

6. **Prepaid Expenses**
Payments made to vendors for services that will benefit periods beyond year-end are recorded as prepaid expenses using the consumption method. An asset for prepaid amounts is recorded at the time of the purchase and an expense is reported in the year in which services are consumed.

7. **Capital Assets**
Capital assets are stated at cost (except as noted in the next paragraph with respect to donated developer lines) and are depreciated over the estimated useful lives of the assets from 5 years to 50 years depending upon the type of asset. Buildings have an estimated useful life of 30-50 years. Water and sewer lines and related infrastructure have an estimated useful life of 25-50 years. Furniture and general equipment have an estimated useful life of 5-15 years. Vehicles and accessories have an estimated useful life of 5-7 years. The District capitalizes assets that have a value or cost in excess of $1,000 at the date of acquisition and an expected useful life of one or more years.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Donated developer lines are stated at fair value based on developer documentation, and are depreciated over 50 years, which represents the estimated useful lives of the assets. Depreciation is computed using the straight-line method for financial reporting purposes. Repairs and maintenance costs are charged to operations when incurred. Improvements and additions are capitalized.

8. **Cash and Cash Equivalents**
For purposes of the statement of cash flows, the District considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

Investments with a maturity of three months or less at the time they are purchased by the District are considered to be pooled cash and investments and are reported as "cash and cash equivalents" in the accompanying financial statements.

9. **Interest Expense**
Interest expense for the years ended December 31, 2016 and 2015 represents the interest portion of construction loan payments to the Ohio Water Development Authority, Rural Development, and PNC Financial Corporation in the amount of $561,776 and $564,552.

10. **Estimates**
The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America require management to make estimates and assumptions that affect reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

11. **Board Designated Cash Fund**
The Board of Trustees allocates $1,500 each year, via resolution, for expenditures to be designated by the Trustees. This procedure is in accordance with the Ohio Revised Code. Board discretionary expenditures for the years ended December 31, 2016 and 2015 were $0.

12. **Vacation, Sick Leave and Other Compensated Absences**
The District's employees are entitled to certain compensated absences based on their length of employment. Accrued employee benefits include cumulative vested vacation, sick leave, and compensatory hours multiplied by current hourly rates.

13. **Operating Revenues and Expenses**
Operating revenues are those revenues that are generated directly from the primary activity of the proprietary fund. For the District, these revenues are service revenues and late charges for water and sewer services provided. Operating expenses are necessary costs incurred to provide the goods and/or services that are the primary activity of the fund. Revenues and expenses not meeting these definitions are identified as non-operating.

14. **Net Position**
Net position represents the difference between assets plus deferred outflows of resources and liabilities plus deferred inflows of resources. Net investment in capital assets, consist of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for acquisition, construction or improvements of those assets. The District applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position are available.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

15. **Inventory of Materials and Supplies**
Inventories of materials and supplies are presented at the lower of cost or market on a first-in, first-out basis and are expensed when used.

16. **Restricted Assets**
Restricted assets should be reported when restrictions on asset use change the nature or normal understanding of the availability of the asset. Restricted assets represent certain resources segregated from other resources of the District to comply with various covenants established by bond financing agreements. These assets are generally held in separate accounts of the District or by a trustee. The various covenants place restrictions on the use of these resources, require minimum balances to be maintained in certain accounts, and establish annual amounts to be accumulated for specific purposes.

17. **Planning Costs – Proposed Projects**
The planning costs for proposed projects are comprised of engineering, legal and administrative planning costs which are not allocated to specific projects currently in construction. If the proposed project begins construction, the respective planning costs will be included in capital assets and depreciated. If the proposed project does not enter construction, respective planning costs will be deemed impaired assets and written-off.

18. **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. The deferred outflows of resources related to the pension are explained in Note H. 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. (See Note H)

19. **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.

NOTE C – RECEIVABLES

Accounts receivable are presented at their net realizable value of $471,486 and $441,818 as of December 31, 2016 and 2015.

Assessment receivables represent the principal portion of assessments for water and sewer line construction costs to local service users. These amounts will generally be paid over the life of the related debt (see Note F) including interest rates ranging from 6.16% to 7.14% and are reported as restricted assets.

NOTE D – CAPITAL ASSETS

Capital assets activity for the year ended December 31, 2016 was as follows:

	Ending Balance at 12/31/2015	Additions	Deletions	Ending Balance at 12/31/2016
Capital Assets, Not Being Depreciated				
Land and Land Easements	$671,076	$106,656	$0	$777,732
Construction in Progress	265,050	2,441	(30,289)	237,202
Total Capital Assets, Not Being Depreciated	936,126	109,097	(30,289)	1,014,934
Capital Assets, Being Depreciated				
Buildings and Improvements	5,277,459	0	0	5,277,459
Water and Sewer Lines and Related Infrastucture	15,813,262	188,294	0	16,001,556
Vehicles and Accessories	196,313	53,267	(16,758)	232,822
Furniture and General Equipment	2,755,302	18,691	0	2,773,993
Donated Water and Sewer Lines	9,600,076	1,643,511	0	11,243,587
Total Capital Assets, Being Depreciated	33,642,412	1,903,763	(16,758)	35,529,417
Less Accumulated Depreciation:				
Buildings and Improvements	(1,935,711)	(142,523)	0	(2,078,234)
Water and Sewer Lines and Related Infrastucture	(6,777,986)	(404,558)	0	(7,182,544)
Vehicles and Accessories	(184,244)	(7,966)	16,759	(175,451)
Furniture and General Equipment	(1,523,932)	(127,889)	0	(1,651,821)
Donated Water and Sewer Lines	(2,500,226)	(260,366)	0	(2,760,592)
Total Accumulated Depreciation	(12,922,099)	(943,302)	16,759	(13,848,642)
Total Capital Assets Being Depreciated, Net	20,720,313	960,461	1	21,680,775
Total Capital Assets	$21,656,439	$1,069,558	($30,288)	$22,695,709

NOTE D – CAPITAL ASSETS (Continued)

Capital assets activity for the year ended December 31, 2015 was as follows:

	Ending Balance at 12/31/2014	Additions	Deletions	Ending Balance at 12/31/2015
Capital Assets and Land Easements, Not Being Depreciated				
Land and Land Easements	$671,076	$0	$0	$671,076
Construction in Progress	104,918	160,132	0	265,050
Total Capital Assets, Not Being Depreciated	775,994	160,132	0	936,126
Capital Assets, Being Depreciated				
Buildings and Improvements	5,270,703	6,756	0	5,277,459
Water and Sewer Lines and Related Infrastucture	15,807,860	5,402	0	15,813,262
Vehicles and Accessories	196,313	0	0	196,313
Furniture and General Equipment	2,743,532	11,770	0	2,755,302
Donated Water and Sewer Lines	9,229,269	370,807	0	9,600,076
Total Capital Assets, Being Depreciated	33,247,677	394,735	0	33,642,412
Less Accumulated Depreciation:				
Buildings and Improvements	(1,792,227)	(143,484)	0	(1,935,711)
Water and Sewer Lines and Related Infrastucture	(6,371,310)	(406,676)	0	(6,777,986)
Vehicles and Accessories	(175,615)	(8,629)	0	(184,244)
Furniture and General Equipment	(1,391,520)	(132,412)	0	(1,523,932)
Donated Water and Sewer Lines	(2,308,604)	(191,622)	0	(2,500,226)
Total Accumulated Depreciation	(12,039,276)	(882,823)	0	(12,922,099)
Total Capital Assets Being Depreciated, Net	21,208,401	(488,088)	0	20,720,313
Total Capital Assets	$21,984,395	($327,956)	$0	$21,656,439

NOTE E – NOTE RECEIVABLE TAP FEES

The District has signed tap agreements under which developers have agreed to purchase water and sewer taps over the next several years. The developers have secured their obligation to purchase these taps by signing irrevocable, unconditional letters-of-credit. The current portion of notes receivable for tap fees for the years ended December 31, 2016 and 2015 were $0 and $2,194, respectively.

NOTE F – LONG-TERM DEBT

Loans payable related to construction of the District's infrastructure consist of the following loans payable to the Ohio Water Development Authority for December 31, 2016 and 2015:

OWDA Loans Payable:	2016	2015
7.21% due in semi-annual payments of $12,396, including interest through July 2018	44,695	64,814
7.14% due in semi-annual payments of $7,170, including interest through July 2018	25,871	37,531
6.51% due in semi-annual payments of $9,856, including interest through January 2022	95,401	108,077
6.18% due in semi-annual payments of $2,367, including interest through July 2022	23,147	26,258
5.88% due in semi-annual payments of $9,785, including interest through January 2023	103,152	115,906
5.66% due in semi-annual payments of $16,119, including interest through January 2025	212,725	231,841
5.56% due in semi-annual payments of $22,440, including interest through January 2025	300,749	327,775
5.77% due in semi-annual payments of $9,067, including interest through January 2025	120,491	131,207
5.85% due in semi-annual payments of $7,797, including interest through January 2021	60,089	71,500
6.72% due in semi-annual payments of $25,478, including interest through January 2021	192,108	227,758
6.16% due in semi-annual payments of $18,861, including interest through January 2020	115,385	144,224
6.41% due in semi-annual payments of $4,667, including interest through January 2027	70,549	75,140
6.39% due in semi-annual payments of $12,930, including interest through January 2027	195,629	208,375
6.39% due in semi-annual payments of $3,383, including interest through July 2027	52,878	56,110
6.39% due in semi-annual payments of $12,877, including interest through January 2027	194,822	207,515
6.03% due in semi-annual payments of $64,884, including interest through January 2027	998,746	1,065,267
6.03% due in semi-annual payments of $15,454, including interest through January 2027	237,880	253,724
6.03% due in semi-annual payments of $10,084, including interest through January 2027	155,224	165,563
6.03% due in semi-annual payments of $17,014, including interest through January 2027	261,888	279,331
5.15% due in semi-annual payments of $3,230, including interest through July 2028	57,290	60,668
4.40% due in semi-annual payments of $56,999, including interest through July 2028	$1,054,049	$1,119,502
4.66% due in semi-annual payments of $32,573, including interest through July 2029	629,862	664,442

NOTE F – LONG-TERM DEBT (Continued)

OWDA Loans Payable:	2016	2015
3.77% due in semi-annual payments of $27,569, Including interest through July 2021	249,136	293,619
2.01% due in semi-annual payments to be determined, through January 2033	2,444	-0-
Total	5,454,210	5,936,147
Less current maturities	(511,815)	(484,381)
Noncurrent OWDA loans payable	$4,942,395	5,451,766

	Balance 12/31/2015	Additions	Reductions	Balance 12/31/2016	Amount Due Within One Year
O.W.D.A.	$5,936,147	$2,444	$484,381	$5,454,210	$511,815
Rural Development	4,339,300	0	68,500	4,270,800	71,600
PNC Financial Corp	400,000	0	160,000	240,000	160,000
Net Pension Liabilities	568,079	273,907	0	841,986	0
	$11,243,526	$276,351	$712,881	$10,806,996	$743,415

	Balance 12/31/2014 *	Additions	Reductions	Balance 12/31/2015	Amount Due Within One Year
O.W.D.A.	$6,826,304	$0	$890,157	$5,936,147	$484,381
Rural Development	4,404,900	0	65,600	4,339,300	68,500
PNC Financial Corp	560,000	0	160,000	400,000	160,000
Net Pension Liabilities	555,248	12,831	0	568,079	0
	$12,346,452	$12,831	$1,115,757	$11,243,526	$712,881

On February 18, 2016, the District was notified by the Ohio Water Development Authority (OWDA) that they have implemented an interest rate buy-down program to assist communities and local governments with outstanding OWDA loans. Any District OWDA loans with interest rates exceeding 4.00% will see a reduction of the interest ratio to 4.00%. The buy-down was credited to District payments starting with the July 1, 2016 due date and resulted in an interest subsidy in 2016 which was treated as both a non-operating revenue (Intergovernmental Revenue) and a non-operating expense (Interest Expense) in the accompanying financial statements. The District will receive an estimated $397,264 of additional interest subsidies through 2029 in the following amounts annually:

Interest Subsidy	
2017	75,906
2018	67,158
2019	58,488
2020	49,906
2021	41,617
2022	34,498
2023	27,253
2024	20,243
2025	13,072
2026	6,789
2027	1,584
2028	645
2029	105
Total	$397,264

NOTE F – LONG-TERM DEBT (Continued)

Maturities of the District's debt for the years subsequent to December 31, 2016 are as follows:

	OWDA Loans			Rural Development Bonds		
	Principal	Interest	Total	Principal	Interest	Total
2017	$511,815	$294,185	$806,000	$71,600	$186,848	$258,448
2018	543,292	265,153	808,445	74,600	183,715	258,315
2019	532,452	234,417	766,869	77,900	180,451	258,351
2020	543,307	204,700	748,007	81,300	177,043	258,343
2021	521,444	174,427	695,871	84,800	173,486	258,286
2022-2026	2,253,066	475,074	2,728,139	483,400	808,396	1,291,796
2027-2031	548,834	32,195	581,029	598,700	692,997	1,291,697
2032-2036	0	0	0	741,700	550,056	1,291,756
2037-2041	0	0	0	918,700	372,986	1,291,686
2042-2046	0	0	0	1,138,100	153,631	1,291,731
Total	$5,454,210	$1,680,151	$7,134,360	$4,270,800	$3,479,609	$7,750,409

	PNC Financial Corp			Total		
	Principal	Interest	Total	Principal	Interest	Total
2017	$160,000	$8,720	$168,720	$743,415	$489,753	$1,233,168
2018	80,000	1,744	81,744	697,892	450,612	1,148,504
2019	0	0	0	610,352	414,868	1,025,220
2020	0	0	0	624,607	381,743	1,006,350
2021	0	0	0	606,244	347,913	954,157
2022-2026	0	0	0	2,736,466	1,283,470	4,019,936
2027-2031	0	0	0	1,147,533	725,193	1,872,726
2032-2036	0	0	0	741,700	550,056	1,291,756
2037-2041	0	0	0	918,700	372,986	1,291,686
2042-2046	0	0	0	1,138,101	153,630	1,291,731
Total	$240,000	$10,464	$250,464	$9,965,010	$5,170,224	$15,135,234

During 2006, the District issued $4,840,000 in Rural Development Water Resource Revenue Bonds to retire an Ohio Water Development Authority loan. The terms of the bonds are an interest rate of 4.375% with a maturity date of 2046.

During 2007, the District obtained a PNC Financial Corp loan in the amount of $1,600,000 for the purpose of Blacklick sanitary sewer improvements. The terms of the loan are an interest rate of 4.36% with a maturity date of 2018.

In connection with the mortgage revenue bonds and Ohio Water Development Authority loans, the District has pledged future customer revenues, net of specified operating expenses, to repay this debt. Pledged revenues of a given year may also include specified portions of cash balances carried over from the prior year. The bonds and loans are payable, through their final maturities, solely from net revenues applicable to its fund. The combined principal and interest remaining to be paid on these bonds and loans as of December 31, 2016 and 2015 are $7,750,409 and $8,008,753 and $7,146,130 and $7,937,918 respectively. The coverage ratios at December 31, 2016 and 2015 were 1.80 and 0.78, respectively.

NOTE G – CAPITAL CONTRIBUTIONS

Donated Developer Lines

Donated developer sewer and water lines are shown on the face of the financial statements as capital contributions – donated lines and pump stations. The District had capital contributions of $1,643,511 for 2016 and $370,808 for 2015.

NOTE H – DEFINED BENEFIT RETIREMENT PLAN

Net Pension Liability

The net pension liability reported on the statements 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 the pension plan's collective actuarial present value of projected benefit payments attributable to past periods of service, net of the 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 may elect the member-directed plan and the combined plan, substantially all employee members are in OPERS' traditional plan; therefore, the following disclosure focuses on the traditional pension plan.

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

NOTE H – DEFINED BENEFIT RETIREMENT PLAN (Continued)

Plan Description – Ohio Public Employees Retirement System (OPERS) - Continued

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 Eligible to retire prior to January 7, 2013 or five years after January 7, 2013	Group B 20 years of service credit prior to January 7, 2013 or eligible to retire ten years after January 7, 2013	Group C 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 60 with 60 months of service credit or Age 55 with 25 years of service credit	**Age and Service Requirements:** Age 60 with 60 months of service credit or Age 55 with 25 years of service credit	**Age and Service Requirements:** Age 57 with 25 years of service credit or Age 62 with 5 years of service credit
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	**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	**Formula:** 2.2% of FAS multiplied by years of service for the first 35 years and 2.5% for service years in excess of 35

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

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

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

	State and Local
2016 Statutory Maximum Contribution Rates	
Employer	14.0 %
Employee	10.0 %
2016 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 to OPERS was $79,937 in fiscal year 2016. Of this amount $7,161 was reported as a payroll related liability.

NOTE H – DEFINED BENEFIT RETIREMENT PLAN (Continued)

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

The net pension liability reported as of December 31, 2016 was measured as of December 31, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on the District's share of contributions to the pension plan relative to the projected contributions of all participating entities. Following is information related to the proportionate share:

	OPERS
Proportionate Share of the Net Pension Liability-Current Year	0.004861%
Proportionate Share of the Net Pension Liability-Prior Year	0.004710%
Change in Proportionate Share	0.000151%
Proportion of the Net Pension Liability	$841,986
Pension Expense	$123,821

At December 31, 2016, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Deferred Outflows of Resources	**OPERS**
Differences between expected and actual investment earnings	$247,491
Changes in proportion	11,951
District contributions subsequent to the measurement date	79,937
Total	$339,379
Deferred Inflows of Resources	**OPERS**
Differences between projected and actual economic experience	$16,269
Total	$16,269

$79,937 reported as deferred outflows of resources related to pension resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending December 31, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

Fiscal Year Ending December 31:	OPERS
2017	$59,400
2018	63,356
2019	64,409
2020	56,008
Total	$243,173

NOTE H – DEFINED BENEFIT RETIREMENT PLAN (Continued)

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

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

Wage Inflation	3.75 percent
Future Salary Increases, including inflation	4.25 to 10.05 percent including wage inflation at 3.75%
COLA or Ad Hoc COLA	Pre January 7, 2013: 3.00% simple Post January 7, 2013: 3.00% simple through 2018, then 2.80% 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 401 (b) Health Care portfolio, the 115 Health Care Trust portfolio and the Defined Contribution portfolio. The Defined Benefit portfolio includes the investment assets of the Traditional Pension Plan, the defined benefit component of the Combined Plan, the annuitized accounts of the Member-Directed Plan and the VEBA Trust. Within the Defined Benefit portfolio, contributions into the plans are all recorded at the same time, and benefit payments all occur on the first of the month. Accordingly, the money-weighted rate of return is considered to be the same for all plans within the portfolio. The money weighted rate of return, net of investments expense, for the Defined Benefit portfolio is 0.4 percent for 2015.

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

NOTE H – DEFINED BENEFIT RETIREMENT PLAN (Continued)

Actuarial Assumptions – OPERS - Continued

The table below displays the Board-approved asset allocation policy for 2015 and the long-term expected real rates of return:

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

Discount Rate

The discount rate used to measure the total pension liability was 8.0%. 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 benefit 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

Net pension liability is sensitive to changes in the discount rate, and to illustrate the potential impact the following table presents the net pension liability calculated using the discount rate of 8.00 percent, as well as what each plan's net pension liability would be if it were calculated using a discount rate that is one percentage point lower (7.00 percent), or one percentage point higher (9.00 percent) than the current rate.

	1% Decrease (7.0%)	Current Discount Rate (8.0%)	1% Increase (9.0%)
District's proportionate share of the net pension liability	$1,341,490	$841,986	$420,671

Changes Between Measurement Date and Report Date

In October 2016, the OPERS Board adopted certain assumption changes which will impact their annual actuarial valuation prepared as of December 31, 2016. The most significant change is a reduction of the discount rate from 8.0% to 7.5%. Although the exact amount of these changes is not known, the impact to the District's net pension liability is expected to be significant.

NOTE I – POSTEMPLOYMENT BENEFITS

Ohio Public Employees Retirement System

A. 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.

B. OPERS maintained two cost-sharing, multiple employer defined benefit post-employment health care trusts, which funded multiple health care plans including medical coverage, prescription drug coverage, deposits to a Health Reimbursement Arrangement and Medicare Part B premium reimbursements, to qualifying benefit recipients of both the traditional pension and the combined plans. Members of the member-directed plan do not qualify for ancillary benefits, including OPERS sponsored health care coverage.

In order to qualify for post-employment health care coverage, age-and-service retirees under the Traditional Pension and Combined plans must have 20 or more year of qualifying Ohio service credit. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available. The health care coverage provided by OPERS meets the definition of an Other Post-Employment Benefit (OPEB) as described in GASB Statement No. 45. Please see the OPERS CAFR referenced below for additional information.

C. The Ohio Revised Code permits, but does not require OPERS to provide health care to its eligible benefit recipients. Authority to establish and amend health care coverage is provided to the Board in Chapter 145 of the Ohio Revised Code.

Disclosures for the health care plan are presented separately in the OPERS financial report. Interested parties may obtain a copy by visiting https://www.opers.org/financial /reports.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-employment health care through their contributions to OPERS. A portion of each employer's contribution to OPERS is set aside to fund OPERS health care plans.

Employer contribution rates are expressed as a percentage of the earnable salary of active members. In 2016, state and local employers contributed at a rate of 14.0 percent of earnable salary. This is the maximum employer contribution rate permitted by the Ohio Revised Code. Active member contributions do not fund health care.

At the beginning of 2016, OPERS maintained three health care trusts. The two cost-sharing, multiple employer trusts, the 401(h) Health Care Trust(401(h) Trust) and the 115 Health Care Trust (115 Trust), worked together to provide health care funding to eligible retirees of the Traditional Pension and Combined plans. Each year, the OPERS Board of Trustees determines the portion of the employer contributions rate that will be set aside to fund health care plans. As recommended by OPERS' actuary, the portion of employer contributions allocated to health care beginning January 1, 2016 remained at 2.0 percent for both the Traditional Pension and Combined plans. The Board is also authorized to establish rules for the retiree or their surviving beneficiaries to pay a portion of the health care provided. Payment amounts vary depending on the number of covered dependents and the coverage selected. The third trust is a Voluntary Employee's Beneficiary Association (VEBA) Trust that provides funding for a Retiree Medical Account (RMA) for Member-Directed Plan members. The employer contribution as a percentage of covered payroll deposited to the RMAs for 2016 was 4.0 percent.

NOTE I - POSTEMPLOYMENT BENEFITS - Continued

In March 2016, OPERS received two favorable rulings from the IRS allowing OPERS to consolidate all health care assets into the 115 Trust. Transition to the new health care trust structure occurred during 2016. OPERS Combining Statements of Changes in Fiduciary Net Position for the year ended December 1, 2016, will reflect a partial year of activity in the 401(h) Trust and VEBA Trust prior to the termination of these trusts as of end of business day June 30, 2016, and the assets and liabilities, or net position, of these trusts being consolidated into the 115 Trust on July 1, 2016.

Substantially all of the District's contribution allocated to fund post-employment health care benefits relates to the cost-sharing, multiple employer trusts. The corresponding contribution for the years ended December 31, 2016, 2015, and 2014 was $13,327, $12,353, and $12,052, respectively. The full amount has been contributed for 2016, 2015 and 2014.

NOTE J – DEPOSITS WITH FINANCIAL INSTITUTIONS – LEGAL REQUIREMENTS

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 withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

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

Interim deposits are deposits of interim monies. Interim monies are those monies, which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories.

Interim monies may be deposited or invested in the following securities:

1. United States treasury notes, bills, bonds, or other obligations of or securities issued by the United States treasury or any other obligation guaranteed as to the payment of principal and interest by the United States;

2. Bonds, notes, debentures, or 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. Bonds and other obligations of the State of Ohio, its political subdivisions, or other units or agencies of this State or its political subdivisions;

5. Time certificates of deposit or savings or deposit accounts, including, but not limited to, passbook accounts;

6. 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;

NOTE J – DEPOSITS WITH FINANCIAL INSTITUTIONS – LEGAL REQUIREMENTS (continued)

7. The State Treasurer's investment pool (STAR Ohio);

8. Commercial paper notes issued by any entity that is defined in division (D) of section 1705.01 of the Revised Code and has assets exceeding five hundred million dollars, and to which notes are rated at the time of purchase in the highest classification established by at least two standard rating services; the aggregate value of the notes does not exceed ten percent of the aggregate value of the outstanding commercial paper of the issuing corporation; the notes mature no later than two hundred seventy days after purchase; and

9. Bankers acceptances for a period not to exceed 180 days and in an amount not to exceed 10% of the District's average portfolio.

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

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 purchased under section 135 of the Ohio Revised Code must mature within five years from the date of purchase unless matched to a specific obligation or debt of the District, and must be purchased with the expectation that it will be held to maturity. Investments purchased under section 6119 have no such maturity restrictions.

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

Deposits

Custodial credit risk is the risk that in the event of the failure of the counterparty, the District's deposits may not be returned. According to state law, public depositories must give security for all public funds on deposit in excess of those funds that are insured by the Federal Deposit Insurance Corporation (FDIC) or by any other agency or instrumentality of the federal government. These institutions may either specifically collateralize individual accounts in lieu of amounts insured by the 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. The District's policy is to deposit money with financial institutions that are able to abide by the laws governing insurance and collateralization of public funds.

The carrying amount of all District deposits was $2,647,626, exclusive of $554 in cash on hand at December 31, 2016. The carrying amount of all District deposits was $1,447,163, exclusive of $354 in cash on hand at December 31, 2015. The District's deposit bank balances as of December 31, 2016 and 2015 were $2,657,699 and $1,523,217, respectively. The District's balances were covered by FDIC for $522,654 and $512,545 at December 31, 2016 and 2015. The remainder was collateralized by the financial institution's public entity deposit pool in the manner described above.

NOTE J – DEPOSITS WITH FINANCIAL INSTITUTIONS – LEGAL REQUIREMENTS (continued)

Investments

The District had the following investments at December 31, 2016:

		Investment Maturities			
Description	Fair Value	< 1 Year	1-2 Years	3-5 Years	>5 Years
UBS Fixed Income	$1,128,033	$1,128,033	-	-	-
STAR Ohio	50,992	50,992	-	-	-
Well Fargo MM and Sweep Funds	771,643	771,643	-	-	-
Wells Fargo Municipal Bonds	334,258	20,605	42,549	271,104	-
Total Investments	$2,284,926	$1,971,273	$42,549	$271,104	$0

The District had the following investments at December 31, 2015:

		Investment Maturities			
Description	Fair Value	< 1 Year	1-2 Years	3-5 Years	>5 Years
UBS Fixed Income	$1,133,606	$1,133,606	-	-	-
STAR Ohio	50,721	50,721	-	-	-
US Treasury Notes	121,753	60,288	61,465	-	-
Federal Home Loan Mortgage Corporation Notes	195,381	65,553	60,210	69,618	-
Federal National Mortgage Association Notes/Bonds	390,867	130,553	65,254	195,060	-
Well Fargo MM and Sweep Funds	52,172	52,172	-	-	-
Wells Fargo Municipal Bonds	340,493	-	85,479	208,084	46,930
Total Investments	$2,284,993	$1,492,893	$272,408	$472,762	$46,930

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

Interest rate risk – Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The District has no investment policy specifically dealing with interest rate risk. The District manages it exposure to declines in fair values by limiting the weighted average maturity of its investment portfolio to five years or less.

NOTE J – DEPOSITS WITH FINANCIAL INSTITUTIONS – LEGAL REQUIREMENTS (continued)

Credit Risk – Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The District has no investment policy specifically dealing with credit risk. Investments in money market funds were rated AAAm by Standard & Poor's, investments in municipal bonds were rated AAA, AA+, AA, AA-, A+, and A by Standard & Poor's, investments in fixed income accounts were rated A by Standard & Poor's, investments in U.S. Treasury Notes, Federal Home Loan Mortgage Corporations Notes, and Federal National Mortgage Association Notes/Bonds were all rated AAA by Moody's, and investments in STAR Ohio were rated AAAm by Standard & Poor's.

Concentration of credit risk – Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The District places no limit on the amount the District may invest in any one issuer. As of December 31, 2015, the District had invested 2% in money market funds, 15% in municipal bonds, 50% in fixed income, 5% in U.S. Treasury Notes, 9% in Federal Home Loan Mortgage Corporation Notes, 17% in Federal National Mortgage Association Notes/Bonds, and 2% in STAR Ohio. As of December 31, 2016, the District had invested 34% in money market funds, 15% in municipal bonds, 49% in fixed income, and 2% in STAR Ohio.

Custodial credit risk is the risk that in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The District has no investment policy specifically dealing with custodial credit risk. All of the District's securities are either insured and registered in the name of the District or at least registered in the name of the District.

NOTE K – RISK MANAGEMENT

The District is exposed to various risks of property and casualty losses, and injuries to employees.

The District insures against injuries to employees through the Ohio Bureau of Worker's Compensation.

The District belongs to the Public Entities Pool of Ohio (PEP), a risk-sharing pool available to Ohio local governments. PEP provides property and casualty coverage for its members. York Insurance Services Group, Inc. (York) functions as the administrator of PEP and provides underwriting, claims, loss control, risk management, and reinsurance services for PEP. PEP is a member of the American Public Entity Excess Pool (APEEP), which is also administered by York. Member governments pay annual contributions to fund PEP. PEP pays judgments, settlements and other expenses resulting from covered claims that exceed the members' deductibles.

<u>Casualty and Property Coverage</u>
APEEP provides PEP with an excess risk-sharing program. Under this arrangement, PEP retains insured risks up to an amount specified in the contracts. At December 31, 2016, PEP retained $350,000 for casualty claims and $100,000 for property claims.

The aforementioned casualty and property reinsurance agreement does not discharge PEP's primary liability for claims payments on covered losses. Claims exceeding coverage limits are the obligation of the respective District.

Settled claims have not exceeded this commercial coverage in any of the past three years. There have been no significant reductions in insurance coverage from the previous year.

NOTE K – RISK MANAGEMENT (continued)

Financial Position
PEP's financial statements (audited by other auditor's) conform with generally accepted accounting principles, and reported the following assets, liabilities and net position at December 31, 2016 and 2015:

	2016	2015
Assets	$42,182,281	$38,307,677
Liabilities	(13,396,700)	(12,759,127)
Net Position	$28,785,581	$25,548,550

At December 31, 2016 and 2015, respectively, the liabilities above include approximately $12.0 million and $11.5 million of estimated incurred claims payable. The assets above also include approximately $11.5 million and $11.0 million of unpaid claims to be billed. The Pool's membership increased from 499 members in 2015 to 520 members in 2016. These amounts will be included in future contributions from members when the related claims are due for payment. As of December 31, 2016 and 2015 respectively, the District's share of these unpaid claims collectible in future years was approximately $26,000 and $25,000.

Based on discussions with PEP, the expected rates PEP charges to compute member contributions, which are used to pay claims as they become due, are not expected to change significantly from those used to determine the historical contributions detailed below. By contract, the annual liability of each member is limited to the amount of financial contributions required to be made to PEP for each year of membership.

Contributions to PEP	
2016	2015
$40,763	$39,205

After one year of membership, a member may withdraw on the anniversary of the date of joining PEP, if the member notifies PEP in writing 60 days prior to the anniversary date. Upon withdrawal, members are eligible for a full or partial refund of their capital contributions, minus the subsequent year's contribution. Withdrawing members have no other future obligation to PEP. Also upon withdrawal, payments for all casualty claims and claim expenses become the sole responsibility of the withdrawing member, regardless of whether a claim occurred or was reported prior to the withdrawal.

NOTE L – BUDGETARY ACTIVITY

Budgetary activity for the years ended December 31, 2016 and 2015 was as follows:

Budgeted and Actual Receipts			
	Budget	Actual	Variance
2016	$5,120,540	$7,097,375	$1,976,835
2015	4,657,173	5,040,865	383,692

Budgeted and Actual Budgetary Basis Expenditures			
	Budget	Actual	Variance
2016	$7,995,755	$4,807,927	$3,187,828
2015	6,771,613	5,325,691	1,445,922

NOTE M – NEW ACCOUNTING PRINCIPLES

For the fiscal year ended December 31, 2016, the District has implemented Governmental Accounting Standards Board (GASB) Statement No. 72, *Fair Value Measurement and Application*, GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*, GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments,* GASB Statement No. 77, *Tax Abatement Disclosures,* and GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*.

GASB Statement No. 72 clarifies the definition of fair value for financial reporting purposes, establishes general principles for measuring fair value, provides additional fair value application guidance, and enhances disclosures about fair value measurements. These changes were incorporated in the District's fiscal year 2016 note disclosures; however, there was no effect on beginning net position/fund balance.

GASB Statement No. 73 establishes requirements for defined benefit pensions that are not within the scope of GASB Statement No. 68 as well as for the assets accumulated for purposes of providing those pensions. In addition, it establishes requirements for defined contribution pensions that are not within the scope of Statement 68. It also clarifies the application of certain provisions of GASB Statements 67 and 68. The implementation of GASB Statement No. 73 did not have an effect on the financial statements of the District.

GASB Statement No. 76 reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. The implementation of GASB Statement No. 76 did not have an effect on the financial statements of the District.

GASB Statement No. 77 requires governments that enter into tax abatement agreements to disclose the certain information about the agreements including brief descriptive information such as the tax being abated, the authority under and mechanism by which tax abatements are provided, eligibility criteria, provisions for recapturing abated taxes, the types of commitments made by tax abatement recipients, the gross dollar amount of taxes abated during the period, and commitments made by a government, other than to abate taxes, as part of a tax abatement agreement. The implementation of GASB Statement No. 77 did not have an effect on the financial statements of the District.

GASB Statement No. 79 addresses accounting and financial reporting for certain external investment pools and pool participants. Specifically, it establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. The implementation of GASB Statement No. 79 did not have an effect on the financial statements of the District.

NOTE N – INFORMATION BY SEGMENT

The District maintains two segments which provide water and sewer services. Information by segment for the years ended December 31, 2016 and 2015 follows:

2016 SEGMENT	Water	Sewer	Total
OPERATING REVENUES:			
Charges for services	$2,074,170	$2,480,114	$4,554,284
Tap fees	269,257	312,052	581,309
Miscellaneous income	72,763	68,267	141,030
Total Operating Revenues	2,416,190	2,860,433	5,276,623
OPERATING EXPENSES:			
Plant operations	608,784	1,326,434	1,935,218
Salaries and payroll related expenses	499,519	597,283	1,096,802
General and administration expenses	125,953	144,876	270,829
Depreciation	726,343	216,959	943,302
Total Operating Expenses	1,960,599	2,285,552	4,246,151
Operating Income (Loss)	455,591	574,881	1,030,472
NONOPERATING INCOME AND (EXPENSES):			
Interest income	24,035	24,035	48,070
Intergovernmental	89,025	40,146	129,171
Interest expense	(429,385)	(132,391)	(561,776)
Total Nonoperating Income (Expenses)	(316,325)	(68,210)	(384,535)
Increase (Decrease) In Net Position before Capital Contributions	139,266	506,671	645,937
Capital Contributions - Donated Lines	706,710	936,801	1,643,511
Increase (Decrease) In Net Position	$845,976	$1,443,472	$2,289,448

2015 SEGMENT	Water	Sewer	Total
OPERATING REVENUES:			
Charges for services	$1,894,326	$2,410,961	$4,305,287
Tap fees	103,500	70,150	173,650
Miscellaneous income	56,493	71,899	128,392
Total Operating Revenues	2,054,319	2,553,010	4,607,329
OPERATING EXPENSES:			
Plant operations	566,760	1,755,069	2,321,829
Salaries and payroll related expenses	425,473	541,512	966,985
General and administration expenses	68,434	87,098	155,532
Depreciation	518,876	363,947	882,823
Total Operating Expenses	1,579,543	2,747,626	4,327,169
Operating Income	474,776	(194,616)	280,160
NONOPERATING INCOME AND (EXPENSES):			
Interest income	38,322	38,322	76,644
Interest expense	(423,322)	(141,230)	(564,552)
Total Nonoperating Income (Expenses)	(385,000)	(102,908)	(487,908)
Increase In Net Position before Capital Contributions	89,776	(297,524)	(207,748)
Capital Contributions - Donated Lines	154,112	216,696	370,808
Increase In Net Position	$243,888	($80,828)	163,060

Jefferson Water and Sewer District

Required Supplementary Information

Schedule of the District's Proportionate Share of the Net Pension Liability

Ohio Public Employees Retirement System

Last Three Years

	2016	**2015**	**2014**
Total plan pension liability	$ 91,534,580,978	$ 89,017,348,266	$ 86,407,229,435
Plan net position	74,213,320,352	76,956,230,642	74,618,532,269
Net pension liability	17,321,260,626	12,061,117,624	11,788,697,166
District's proportion of the net pension liability	0.004861%	0.004710%	0.004710%
District's proportionate share of the net pension liability	$ 841,986	$ 568,079	$ 555,248
District's covered-employee payroll	$ 617,425	$ 577,408	$ 595,946
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	136.37%	98.38%	93.17%
Plan fiduciary net position as a percentage of the total pension liability	81.08%	86.45%	86.36%

(1) Information prior to 2014 is not available.
Amounts presented as of the District's measurement
date which is the prior fiscal year.

Jefferson Water and Sewer District
Required Supplementary Information
Schedule of District Contributions
Ohio Public Employees Retirement System
Last Ten Years

	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Contractually required contribution	$ 79,937	$ 74,091	$ 69,289	$ 77,473	$ 55,561	$ 50,484	$ 43,775	$ 36,966	$ 33,952	$ 37,734
Contributions in relation to the contractually required contribution	(79,937)	(74,091)	(69,289)	(77,473)	(55,561)	(50,484)	(43,775)	(36,966)	(33,952)	(37,734)
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
District's covered-employee payroll	$ 666,142	$ 617,425	$ 577,408	$ 595,946	$ 555,610	$ 504,840	$ 500,286	$ 476,981	$ 485,029	$ 451,904
Contributions as a percentage of covered employee payroll	12.00%	12.00%	12.00%	13.00%	10.00%	10.00%	8.75%	7.75%	7.00%	8.35%

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

Jefferson Water and Sewer District
Franklin County
6455 Taylor Road
Blacklick, Ohio 43004

To the Board of Trustees:

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 Jefferson Water and Sewer District, Franklin County, Ohio (the District) as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated December 14, 2017, wherein we noted that the financial statements of the District as of and for the year ended December 31, 2015 were audited by a predecessor auditor.

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 2016-001 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

Dave Yost
Auditor of State
Columbus, Ohio

December 14, 2017

JEFFERSON WATER AND SEWER DISTRICT
FRANKLIN COUNTY

SCHEDULE OF FINDINGS
DECEMBER 31, 2016

FINDINGS RELATED TO THE FINANCIAL STATEMENTS
REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS

FINDING NUMBER 2016-001

Financial Reporting – Material Weakness

Sound financial reporting is the responsibility of the Controller and the Board of Trustees and is essential to ensure the information provided to the readers of the financial statements is complete and accurate.

The following were reclassified on the District's 2016 financial statements:

- Reclassification of $882,537 from Customer Deposits - Payable to Unearned Revenue to properly state prepaid tap fees received by the District at year end. This also included a reclassification of this amount from Cash Flow from Non-Capital Financing Activities to Cash Flows from Operating Activities.

- Reclassification of $1,081,082, from Investments to Cash and Cash Equivalents to properly state investments at year-end with maturity dates of less than 3 months (cash equivalents). This also included an adjustment to increase Cash Flows from Investing Activities by the same amount.

Further, an adjustment of $1,442,421 was posted to the District's 2016 financial statements and to the accounting records to increase Capital Contributions - Donated Lines and Depreciable Capital Assets to properly record water and sewer lines received from the several developments that were not recorded by the District. This also included an increase to depreciation expense and accumulated depreciation of $64,301.

In addition to the adjustments and reclassifications listed above, we also identified three additional misstatements ranging from $43,786 to $176,557 that we have brought to the District's attention.

Lack or failure of controls over the posting of financial transactions and financial reporting can result in errors or irregularities that may go undetected and decreases the reliability of the financial data throughout the year.

We recommend the District develop policies and procedures to enhance its controls over recording of financial reporting to help ensure the information accurately reflects the activity of the District thereby increasing the reliability of the financial data throughout the year.

Officials' Response: Although the $882,537 Unearned Revenue was properly reflected per District books, the amount was erroneously reflected on the District's compiled financial statements as Customer Deposits. The District will follow up on accounts reflected per District books to ensure they are also properly reflected on the District's compiled financial statements.

The District agrees that the reclassification of $1,081,082 Investments to 'cash and cash equivalents' properly states those 'investments' at year-end with maturity dates of less than 3 months.

FINDINGS RELATED TO THE FINANCIAL STATEMENTS
REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)

FINDING NUMBER 2016-001 (Continued)

Financial Reporting – Material Weakness (Continued)

Officials' Response (Continued)

The Donated Asset procedure has been reviewed and revised by all pertinent individuals currently involved so that the timing of the 'donated' assets coincides with the signed and dated Letter of Substantially Completion, which acknowledges receipt of: One year maintenance bond, two year sewer cleaning and televising bond, builds drawings of water and sewer lines, and a executed Bill of Sale that reflects the total cost of the donated assets.

The District will record its obligations/payments owed to government entities: City of Columbus, State of Ohio, OWDA, etc. as 'Intergovernmental Payable' and receivables and monies received from same as 'Intergovernmental Receivables' and 'Intergovernmental Revenues' instead of accounts payables and accounts receivables.

JEFFERSON WATER AND SEWER DISTRICT

FRANKLIN 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
FEBRUARY 8, 2018

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