WESTERN GUERNSEY REGIONAL WATER DISTRICT
GUERNSEY COUNTY

REGULAR AUDIT

FOR THE YEARS ENDED DECEMBER 31, 2017-2016

WESTERN GUERNSEY REGIONAL WATER DISTRICT
GUERNSEY COUNTY
DECEMBER 31, 2017 AND 2016

TABLE OF CONTENTS

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INDEPENDENT AUDITOR'S REPORT

Western Guernsey Regional Water District
Guernsey County
61786 Shaw Road
Cambridge, Ohio 43725

To the Board of Trustees:

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities and the major fund of the Western Guernsey Regional Water District, Guernsey County, Ohio (the District), as of and for the years ended December 31, 2017 and 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the Table of Contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

We believe the audit evidence we obtained is sufficient and appropriate to support our audit opinions.

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the major fund of the Western Guernsey Regional Water District, Guernsey County, Ohio, as of December 31, 2017 and 2016, and the respective changes in financial position and, where applicable, cash flows for the years then ended in accordance with the accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require this presentation to include M*anagement'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 November 1, 2018, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Dave Yost

Dave Yost
Auditor of State
Columbus, Ohio

November 1, 2018

WESTERN GUERNSEY REGIONAL WATER DISTRICT
GUERNSEY COUNTY, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

The discussion and analysis of the Western Guernsey Regional Water District's (the "District") financial performance provides an overall review of the District's financial activities for the years ended December 31, 2017 and 2016. Readers should also review the basic financial statements and notes to enhance their understanding of the Western Guernsey Regional Water District's financial performance.

Financial Highlights

Key financial highlights for 2017 and 2016 are as follows:

- Total operating revenues were $884,470 and $907,656 for 2017 and 2016 respectively, a 3 percent decrease from 2016 to 2017.

- Total operating expenses were $884,906 for 2017 and $861,975 for 2016, a $22,931 increase in expenses from 2017 to 2016.

- In 2016 net position increased $1,263. Net position decreased $15,444 in 2017.

- Outstanding debt decreased from $1,138,047 to $1,121,470 due to principal payments.

Using this Annual Financial Report

This annual report consists of a series of financial statements and notes to those statements.

The statement of net position and the statement of revenues, expenses, and changes in net position reflect how the District did financially during the years ended December 31, 2017 and 2016. These statements include all assets and deferred outflows of resources and liabilities and deferred inflows of resources using the accrual basis of accounting. This basis of accounting considers all of the District's revenues and expenses regardless of when cash is received or paid.

These statements report the District's net position and changes in net position. This change in net position is important because it tells the reader whether the financial position of the District has increased or decreased during the period. Over time, these increases and/or decreases are one indicator of whether the financial position is improving or deteriorating.

Table 1 provides a summary of the District's net position as of December 31, 2017, 2016 and 2015.

Table 1
Net Position

	2017	2016	2015
Assets			
Current and Other Assets	$ 500,564	$ 434,563	$ 391,606
Noncurrent Assets	1,826,443	1,875,686	1,895,873
Total Assets	2,327,007	2,310,249	2,287,479
Deferred Outflows of Resources			
Pension	103,260	86,718	21,402
Liabilities			
Current Liabilities	106,909	96,232	92,020
Noncurrent Liabilities:			
Net Pension Liability	247,440	191,746	112,651
Other Amounts	1,087,880	1,104,748	1,102,958
Total Liabilities	1,442,229	1,392,726	1,307,629
Deferred Inflows of Resources			
Pension	2,946	3,705	1,979
Net Position			
Net Investment in Capital Assets	704,972	737,640	756,710
Restricted	323,357	224,038	121,705
Unrestricted	(43,237)	38,858	120,858
Total Net Position	$ 985,092	$ 1,000,536	$ 999,273

Under the 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 of resources.

The following fluctuations occurred between 2017 and 2016:

Current assets increased by $66,001. Cash and cash equivalents increased by $75,716 due to only one principal and interest payment being made to pay off of debt in 2017. Capital assets decreased in 2017 by $49,243, which is attributable to current year depreciation exceeding additional purchases. Total liabilities increased by $49,503 in 2017. This mainly due to an increase in net pension liability and deferred outflows from GASB 68.

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

The following fluctuations occurred between 2016 and 2015:

Current assets increased by $42,957. Cash and cash equivalents increased by $86,511 due to an increase in the amounts generated by operating activities and the decrease in principal payments from paying off of debt in 2015. Capital assets decreased in 2016 by $20,187, which is attributable to current year depreciation exceeding additional purchases. Total liabilities increased by $85,097 in 2016. This mainly due to an increase in net pension liability and deferred outflows from GASB 68.

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MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

In order to further understand what makes up the changes in net position for the current year, the following table gives readers further details regarding the results of activities for 2017, 2016 and 2015.

Table 2
Changes in Net Position

	2017	2016	2015
Operating Revenues			
Charges for Services	$ 884,470	$ 907,656	$ 841,058
Non-Operating Revenues			
Interest	441	260	118
Other	4,225	1,512	2,670
Total Revenues	889,136	909,428	843,846
Operating Expenses			
Contract Services	387,665	462,016	416,044
Professional Fees	5,853	19,029	5,800
Advertising	323	688	656
Bank Charges	148	140	481
Wages	147,899	138,481	130,824
Employee Benefits	61,386	18,506	16,891
Postage and Office Supplies	11,249	13,117	9,287
Group Insurance	7,819	7,442	18,448
Insurance	7,679	12,638	8,374
Small Tools and Supplies	269	21,040	17,875
Ground Maintenance	1,593	643	0
Workers compensation	2,346	1,989	1,586
Outside Services	19,614	26,804	2,830
Depreciation	49,243	51,800	48,727
Dues and Subscriptions	1,973	1,174	2,720
Vehicle Expense	9,710	15,446	19,726
Phone and Utilities	23,954	23,862	25,270
Licenses and Permits	200	2,576	2,185
Repairs	139,866	38,116	19,647
Bed Debt	0	2,055	387
Miscellaneous	6,117	4,413	1,028
Non-Operating Expenses			
Interest Expense	19,674	46,190	23,461
Total Expenses	904,580	908,165	772,247
Change in Net Position	(15,444)	1,263	71,599
Net Position Beginning of Year	1,000,536	999,273	927,674
Net Position End of Year	**$ 985,092**	**$ 1,000,536**	**$ 999,273**

Operating revenues consisted of user charges for water consumption. Operating expenses reflect the cost of providing these services. In 2017 net position decreased $15,444 and in 2016 it increased by $1,263.

Capital Assets and Debt Administration

Capital Assets

Table 3 provides a summary of the District's capital assets as of December 31, 2017, 2016 and 2015.

Table 3
Capital Assets at December 31
(Net of Accumulated Depreciation)

	2017	2016	2015
Buildings and Improvements	$ 25,481	$ 26,521	$ 22,720
Infrastructure	1,768,524	1,807,887	1,847,443
Machinery and Equipment	710	1,253	3,833
Vehicles	19,228	27,480	9,282
Office Equipment	0	45	95
Land	12,500	12,500	12,500
Total	$ 1,826,443	$ 1,875,686	$ 1,895,873

In 2017 and 2016 assets decreased by $49,243 and $20,187, respectively which is attributable to current year depreciation exceeding additional purchases. Depreciation expense amounted to $49,243, $51,800 and $48,727 during 2017, 2016 and 2015, respectively. Note 5 provides capital asset activity during the 2017 and 2016.

Debt Administration

The outstanding debt for the District at December 31, is summarized in Table 4.

Table 4
Outstanding Debt, at December 31

	2017	2016	2015
Ohio Water Development Authority (OWDA) Loan	$ 1,121,470	$ 1,138,047	$ 1,139,163

Additional information concerning the District's debt can be found in Note 4 to the basic financial statements.

Contacting the District's Financial Management

This financial report is designed to provide citizens, taxpayers, and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have any questions about this report or need additional financial information contact Tracey Roller, Clerk, Western Guernsey Regional Water District, 61786 Shaw Road, Cambridge, Ohio 43725-9441.

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WESTERN GUERNSEY REGIONAL WATER DISTRICT
GUERNSEY COUNTY, OHIO

STATEMENT OF NET POSITION
AS OF DECEMBER 31, 2017 AND 2016

	2017	2016
ASSETS		
Current Assets:		
Cash and Cash Equivalents	$ 36,084	$ 59,687
Segregated Accounts:		
Indebt Service	154,661	93,123
Capital Improvement	168,696	130,915
Accounts Receivable	130,410	138,634
Inventories	10,713	12,204
Total Current Assets	500,564	434,563
Noncurrent Assets:		
Capital Assets		
Buildings and Improvements	101,872	101,872
Infrastructure	2,780,656	2,780,656
Machinery and Equipment	50,987	50,987
Vehicles	76,773	76,773
Office Equipment	1,439	1,439
	3,011,727	3,011,727
Less: Accumulated Depreciation	(1,197,784)	(1,148,541)
	1,813,943	1,863,186
Land	12,500	12,500
Total Noncurrent Assets	1,826,443	1,875,686
Total Assets	2,327,007	2,310,249
Deferred Outflows of Resources		
Pension	103,260	86,718
LIABILITIES		
Current Liabilities		
Current Portion, Long-Term Debt	$ 33,590	$ 33,299
Accounts Payable	53,459	51,027
Accrued Interest	9,715	0
Accrued Liabilities	4,099	6,199
Customer Deposits	6,046	5,707
Total Current Liabilities	106,909	96,232
Noncurrent Liabilities		
Long-Term Debt Net of Current Portion	1,087,880	1,104,748
Net Pension Liability	247,440	191,746
Total Noncurrent Liabilities	1,335,320	1,296,494
Total Liabilities	1,442,229	1,392,726
Deferred in Flows of Resources		
Pension	2,946	3,705
NET POSITION:		
Net Investment in Capital Assets	704,972	737,640
Restricted for Debt Service	154,661	93,123
Restricted for Capital Improvements	168,696	130,915
Unrestricted	(43,237)	38,858
Total Net Position	$ 985,092	$ 1,000,536

See accompanying notes to the financial statements.

WESTERN GUERNSEY REGIONAL WATER DISTRICT
GUERNSEY COUNTY, OHIO

STATEMENT OF REVENUE, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

	2017	2016
Operating Revenue:		
Charges for Services	$ 884,470	$ 907,656
Operating Expenses:		
Contract Services	387,665	462,016
Professional Fees	5,853	19,029
Advertising	323	688
Bank Charges	148	140
Wages	147,899	138,481
Employee Benefits	61,386	18,506
Postage and Office Supplies	11,249	13,117
General Insurance	7,679	12,638
Group Insurance	7,819	7,442
Workers Compensation	2,346	1,989
Small Tools and Supplies	269	21,040
Ground Maintenance	1,593	643
Outside Services	19,614	26,804
Depreciation	49,243	51,800
Dues and Subscriptions	1,973	1,174
Vehicle Expense	9,710	15,446
Phone and Utilities	23,954	23,862
Licenses and Permits	200	2,576
Repairs	139,866	38,116
Bad Debt	0	2,055
Miscellaneous	6,117	4,413
Total Operating Expenses	884,906	861,975
Operating Income (Loss)	(436)	45,681
Non-Operating Revenues (Expenses):		
Rental Income	850	1,020
Hydrant Assessments	3,300	0
Gain on Sale of asset	0	350
Miscellaneous	75	142
Interest Revenue	441	260
Interest Expense	(19,674)	(46,190)
Total Non-Operating Revenue (Expenses)	(15,008)	(44,418)
Change in Net Position	(15,444)	1,263
Net Position, Beginning of Period	1,000,536	999,273
Net Position, End of Period	$ 985,092	$ 1,000,536

See accompanying notes to the financial statements.

WESTERN GUERNSEY REGIONAL WATER DISTRICT
GUERNSEY COUNTY, OHIO

STATEMENTS OF CASH FLOW
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash Received from Customers	$ 892,694	$ 899,647
Cash Paid to Suppliers and Employees	(795,107)	(735,989)
Net Cash Provided by Operating Activities	97,587	163,658
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Rental Income	850	1,020
Hydrant Assessments	3,300	-
Miscellaneous	75	142
Net Cash Provided by Noncapital Financing Activities	4,225	1,162
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds on Sale of Asset	0	350
Interest Received	441	260
Net Cash Provided by Investing Activities	441	610
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Proceeds of OWDA Loans	0	25,221
Purchase of Capital Assets	0	(31,614)
Payments of Long-Term Debt	(16,577)	(26,336)
Interest Paid	(9,960)	(46,190)
Net Cash Used for Capital and Related Financing Activities	(26,537)	(78,919)
Net Increase (Decrease) in Cash and Cash Equivalents	75,716	86,511
Cash and Cash Equivalents, Beginning of Period	283,725	197,214
Cash and Cash Equivalents, End of Period	$ 359,441	$ 283,725

	2017	2016
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating Income (Loss)	$ (436)	$ 45,681
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities		
Depreciation	49,243	51,800
(Increase) Decrease in Assets and Deferred Outflows:		
Accounts Receivable	8,225	(8,009)
Inventory	1,491	51,563
Deferred Outflows	(16,542)	(65,316)
Increase (Decrease) in Liabilities and Deferred Inflows:		
Accounts Payable	2,432	4,633
Deferred Inflows	(759)	1,726
Net Pension Liability	55,694	79,095
Accrued Payroll Taxes	(2,100)	1,276
Customer Deposits	339	1,209
Net Cash Provided by Operating Activities	$ 97,587	$ 163,658

See accompanying notes to the basic financial statements.

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NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of Entity

Western Guernsey Regional Water District Guernsey County (the "District") was organized under the provisions of Section 6119 of the Ohio Revised Code on June 1, 2004. Prior to that date, the District was operated as a not-for-profit corporation known as Western Guernsey Services Company. The District furnishes water service to customers in the rural areas of Guernsey County, Ohio. Customers are billed on a monthly basis for water used and are included in accounts receivable until paid.

Basis of Presentation

The financial statements of the District have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The most significant of the District's accounting policies are described below.

The District's basic financial statements consist of a statement of net position, a statement of revenues, expenses, and changes in net position, and a statement of cash flows.

Measurement Focus and Basis of Accounting

Transactions are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and deferred outflows of resources and all liabilities and deferred inflows of resources associated with the operation of the District are included on the statement of net position. Net position (i.e., equity) is segregated into net investment in capital assets, restricted for purpose, and unrestricted components. The statement of changes in net position presents increases (i.e., revenues) and decreases (i.e., expenses) in net position. The statement of cash flows provides information about how the District finances and meets the cash flow needs of its enterprise activity.

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made. The District uses the accrual basis of accounting. Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. Unbilled service charges receivable are recognized as revenue at year end. Expenses are recognized at the time they are incurred.

Deferred Inflows of Resources and Deferred Outflows of Resources

In addition to assets, the statements of financial position will sometimes report a separate section for deferred outflows of resources. Deferred outflows of resources represent a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until then. The deferred outflows of resources related to pension are explained in Note 6.

In addition to liabilities, the financial statements report a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized until that time. For the District, deferred inflows of resources represents pension. (See Note 6)

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.

Accounts Receivable

Bad debts expense has been minimal and, as a result, accounts receivable do not include an allowance for doubtful accounts. The District has the ability under the provision of Ohio Rev. Code Section 6119.06 (W) to certify unpaid charges to the County Auditor and place a lien upon the property.

Inventory

Inventory consists of water meters and repair parts. Inventory is stated at the lower of cost or market value based on the first-in, first-out method (FIFO) and is expensed when used.

Property, Plant and Equipment

Property, plant and equipment are carried at cost. Depreciation is provided over the estimated useful lives of the related assets. Maintenance and repairs are charged to operations when incurred. Renewals and betterments of a nature considered to materially extend the useful lives of the assets are capitalized. When assets are retired or otherwise disposed of, the assets and related allowances for depreciation and amortization are eliminated from the accounts and any resulting gain or loss is reflected in income. Depreciation for financial reporting purposes is based on the following policies:

Description	Estimated Life	Method
Land	N/A	N/A
Buildings and Improvements	30-40 years	Straight line
Infrastructure	10-50 years	Straight line
Machinery and Equipment	10 years	Straight line
Vehicles	5 years	Straight line
Office Equipment	5 years	Straight line

Long-Term Obligations

The District records obligations not expected to be financed within one year by available financial resources as long-term debt, which consist of an Ohio Water Development Authority (OWDA) Loan.

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 positon 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.

Net Position

Net position represents the difference between assets and deferred outflows and liabilities and deferred inflows. Net investment in capital assets, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation of the District or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments.

Accumulated Leave

All full time permanent employees are entitled to vacation leave, with pay, after the completion of one full year of employment. Vacation leave must be taken by the employee during the year following that in which it was accrued however in special cases the Board may permit an employee to carry over vacation leave to the following year. In no case is any employee allowed to carry over more than one year’s accrued vacation for longer than two years. At the time of separation, an employee is entitled to compensation at their current rate of pay for the pro-rated portion of any earned but unused vacation leave for the current year and for any unused vacation leave from a prior period accrued to the employee’s credit with the approval of the Board.

All employees earn sick leave at the rate of 4.6 hours for each 80 hours in active pay status. Employees with a minimum of ten years of service may receive 25 percent of their accumulated sick leave, not to exceed thirty days, upon retirement through PERS.

As of December 31, 2017 the District’s employees had not accrued any significant leave balances.

Revenue and Expenses

Operating revenues and expenses result from providing water conveyance services. Operating revenues consist of user charges for water services based on water consumption. Operating expenses include the cost of these water services, including administrative expenses. Revenues and expenses which do not meet these definitions are reported as Non-Operating Revenues or Expenses.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

NOTE 2: EQUITY IN POOLED CASH AND EQUIVALENTS

State statute outlines allowable deposits and investments for the District. The District may invest in certificates of deposit, notes, bonds, or other obligations of the United States, or any agency or instrumentality thereof, or in obligations of the State or any political subdivision thereof.

Cash on Hand

For the years ended December 31, 2017 and 2016, the District had $150 in undeposited cash on hand which is included as part of "Cash and Cash Equivalents."

Deposits

Custodial credit risk for deposits is the risk that in the event of bank failure the District will not be able to recover deposits or collateral securities that are in the possession of an outside party. For the years ended December 31, 2017 and 2016, the District's deposits were $359,291 and $283,575, and the bank balances were $359,103 and $288,866, respectively. Of the bank balances, all amounts were covered by FDIC insurance.

The District has no deposit policy for custodial credit risk beyond the requirements of State statue. Ohio law requires that deposits be insured or be protected by eligible securities pledged to and deposited either with the District or a qualified trustee by the financial institution as security for repayment, or by a collateral pool of eligible securities deposited with a qualified trustee and pledged to secure the repayment of all public monies deposited in the financial institution whose market value at all times shall be at least one hundred five percent of the deposits being secured.

NOTE 3: RECEIVABLES

Receivables at December 31, 2017 consisted of $130,410 in water service billings due from water system users during January and February 2018. Receivables at December 31, 2016 consisted of $138,634 in water service billings due from water system users during January and February 2017.

NOTE 4: LONG-TERM DEBT OBLIGATIONS

The District had the following long-term debt obligations as of December 31, 2017 and December 31, 2016:

	2017	2016
Notes payable - Ohio Water Development Authority (OWDA) Loan, issued February 2013. Semi-annual payments begin in July 2014 and include interest at 1.75%. Final payment will be made January 2044.	$ 1,121,470	$ 1,138,047
less: current portion	33,590	33,299
Long-term Debt, net of current portion	$ 1,087,880	$ 1,104,748

During year ended December 31, 2013 the District entered into a loan for $1,850,553 with the OWDA for a waterline replacement. As of December 31, 2016, entire loan amount had been drawn down on the loan. In 2013, the OWDA forgave $549,397 of the loan. The OWDA adjusted the amount of forgiveness on the loan in 2016 by $29,103. During the year ended December 31, 2017, principal payments amounted to $16,577 on the OWDA loan. During the year ended December 31, 2016, principal payments amounted to $26,336 on the OWDA Loan.

Amortization of the above debt, including interest, is scheduled as follows:

Year-Ending	OWDA Loan	
December 31:	Principal	Interest
2018	$ 33,590	$ 19,479
2019	34,181	18,889
2020	34,782	18,288
2021	35,393	17,677
2022	36,015	17,055
2023-2027	189,796	75,553
2028-2032	207,073	58,277
2033-2037	225,922	39,427
2038-2042	246,486	18,862
2043-2044	78,232	1,373
Total	$ 1,121,470	$ 284,880

NOTE 5: CAPITAL ASSETS

Capital asset activity for the years ended December 31, 2017 and 2016 was as follows:

	Balance 1/1/17	Additions	Deletions	Balance 12/31/17
Nondepreciable Capital Assets				
Land	$ 12,500	$ 0	$ 0	$ 12,500
Depreciable Capital Assets				
Buildings and Improvements	101,872	0	0	101,872
Infrastructure	2,780,656	0	0	2,780,656
Machinery and Equipment	50,987	0	0	50,987
Vehicles	76,773	0	0	76,773
Office Equipment	1,439	0	0	1,439
Total Depreciable Capital Assets	3,011,727	-	0	3,011,727
Less Accumulated Depreciation				
Buildings and Improvements	(75,351)	(1,040)	0	(76,391)
Infrastructure	(972,769)	(39,363)	0	(1,012,132)
Machinery and Equipment	(49,734)	(543)	0	(50,277)
Vehicles	(49,293)	(8,252)	0	(57,545)
Office Equipment	(1,394)	(45)	0	(1,439)
Total Accumulated Depreciation	(1,148,541)	(49,243)	0	(1,197,784)
Depreciable Capital Assets, Net of Accumulated Depreciation	1,863,186	(49,243)	0	1,813,943
Total Capital Assets	$ 1,875,686	$ (49,243)	$ 0	$ 1,826,443

NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

	Balance 1/1/16	Additions	Deletions	Balance 12/31/16
Nondepreciable Capital Assets				
Land	$ 12,500	$ 0	$ 0	$ 12,500
Depreciable Capital Assets				
Buildings and Improvements	97,242	4,630	0	101,872
Infrastructure	2,780,656	0	0	2,780,656
Machinery and Equipment	50,987	0	0	50,987
Vehicles	67,470	26,984	(17,681)	76,773
Office Equipment	1,439	0	0	1,439
Total Depreciable Capital Assets	2,997,794	31,614	(17,681)	3,011,727
Less Accumulated Depreciation				
Buildings and Improvements	(74,522)	(829)	0	(75,351)
Infrastructure	(933,213)	(39,556)	0	(972,769)
Machinery and Equipment	(47,154)	(2,580)	0	(49,734)
Vehicles	(58,188)	(8,786)	17,681	(49,293)
Office Equipment	(1,344)	(50)	0	(1,394)
Total Accumulated Depreciation	(1,114,421)	(51,801)	17,681	(1,148,541)
Depreciable Capital Assets, Net of Accumulated Depreciation	1,883,373	(20,187)	0	1,863,186
Total Capital Assets	$ 1,895,873	$ (20,187)	$ 0	$ 1,875,686

NOTE 6: DEFINED BENEFIT PENSION PLANS

Net Pension Liability

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

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

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

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

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

Plan Description – Ohio Public Employees Retirement System (OPERS)

Plan Description - District employees participate in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans. The traditional pension plan is a cost-sharing, multiple-employer defined benefit pension plan. The member-directed plan is a defined contribution plan and the combined plan is a cost-sharing, multiple-employer defined benefit pension plan with defined contribution features.

While members (e.g. District employees) may elect the member-directed plan and the combined plan, substantially all employee members are in OPERS' traditional plan; therefore, the following disclosure focuses on the traditional pension plan.

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

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

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	
	2017	2016
Statutory Maximum Contribution Rates		
Employer	14.00 %	14.00 %
Employee	10.00 %	10.00 %
Actual Contribution Rates		
Employer:		
Pension	13.00 %	12.00 %
Post-Employment Health Care Benefits	1.00 %	2.00 %
Total Employer	14.00 %	14.00 %
Employee	10.00 %	10.00 %

Employer contribution rates are actuarially determined and are expressed as a percentage of covered payroll. The District's contractually required contribution was $19,415 for 2017 and $16,589 for 2016. Of the 2017 amount, $1,964 is reported as accrued liabilities.

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

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

	OPERS Traditional Plan			
	2017		2016	
Proportion of the Net Pension Liability:				
Current Measurement Period		0.00108965%		0.00110700%
Prior Measurement Period		0.00110700%		0.00093400%
Change in Proportion		-0.00001735%		0.00017300%
Proportionate Share of the Net Pension Liability	$	247,440	$	191,746
Pension Expense	$	57,808	$	32,094

Other than contributions made subsequent to the measurement date and differences between projected and actual earnings on investments; deferred inflows/outflows of resources are recognized in pension expense beginning in the current period, using a straight line method over a closed period equal to the average of the expected remaining services lives of all employees that are provided with pensions, determined as of the beginning of the measurement period. Net deferred inflows/outflows of resources pertaining to the differences between projected and actual investment earnings are similarly recognized over a closed five year period. At December 31, 2017 and 2016, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	OPERS Traditional Plan			
	2017		2016	
Deferred Outflows of Resources				
Net Difference between Projected and Actual Earnings on Pension Plan Investments	$	36,848	$	56,361
Differences between Expected and Actual Experience		335		0
Changes of Assumptions		39,247		0
Changes in Proportionate Share		7,415		13,768
District Contributions Subsequent to the Measurement Date		19,415		16,589
Total Deferred Outflows of Resources	$	103,260	$	86,718
Deferred Inflows of Resources				
Differences between Expected and Actual Experience	$	1,473	$	3,705
Changes in Proportionate Share		1,473		0
Total Deferred Inflows of Resources	$	2,946	$	3,705

$19,415 reported as deferred outflows of resources related to pension resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending December 31, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

Year Ending December 31:	OPERS
2018	$ 36,565
2019	32,377
2020	13,038
2021	(1,081)
	$ 80,899

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 was determined by an actuarial valuation as of December 31, 2016, using the following actuarial assumptions applied to all prior periods included in the measurement in accordance with the requirements of GASB 67. In 2016, the Board's actuarial consultants conducted an experience study for the period 2011 through 2015, comparing assumptions to actual results. The experience study incorporates both a historical review and forward-looking projections to determine the appropriate set of assumptions to keep the plan on a path toward full funding. Information from this study led to changes in both demographic and economic assumptions, with the most notable being a reduction in the actuarially assumed rate of return from 8.0 percent down to 7.5 percent, for the defined benefit investments. Key methods and assumptions used in the latest actuarial valuation, reflecting experience study results, are presented below:

Actuarial Information	2016 Measurement Period	2015 Measurement Period
Actuarial Cost Method	Individual Entry Age	Individual Entry Age
Investment Rate of Return	7.50 percent	7.50 percent
Wage Inflation	3.25 percent	3.25 percent
Projected Salary Increases, including wage inflation	3.25 percent to 10.75 percent (includes wage inflation at 3.25 percent)	3.25 percent to 10.75 percent (includes wage inflation at 3.25 percent)
Cost-of-Living Adjustments	Pre-1/7/2013 Retirees: 3.00 percent Simple Post-1/7/2013 Retirees: 3.00 percent Simple through 2018, then 2.15 percent Simple	Pre-1/7/2013 Retirees: 3.00 percent Simple Post-1/7/2013 Retirees: 3.00 percent Simple through 2018, then 2.80 percent Simple

For the 2016 measurement period, mortality rates were based on the RP-2014 Healthy Annuitant mortality table. For males, Healthy Annuitant Mortality tables were used, adjusted for mortality improvement back to the observation period base of 2006 and then established the base year as 2015. For females, Healthy Annuitant Mortality tables were used, adjusted for mortality improvements back to the observation period base year of 2006 and then established the base year as 2010. The mortality rates used in evaluating disability allowances were based on the RP-2014 Disabled mortality tables, adjusted for mortality improvement back to the observation base year of 2006 and then established the base year as 2015 for males and 2010 for females. Mortality rates for a particular calendar year for both healthy and disabled retiree mortality tables are determined by applying the MP-2015 mortality improvement scale to the above described tables. The most recent experience study was completed for the five year period ended December 31, 2015.

For the 2015 measurement period, 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 completed relevant to the 2015 measurement period was for the five-year period ended December 31, 2010.

The long-term expected 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

During 2015, OPERS managed investments in four investment portfolios: the Defined Benefits portfolio, the Health Care portfolio, the 115 Health Care Trust portfolio and the Defined Contribution portfolio. The Defined Benefit portfolio includes the investment assets of the Traditional Pension Plan, the defined benefit component of the Combined Plan, the annuitized accounts of the Member-Directed Plan and the VEBA Trust. Within the Defined Benefit portfolio, contributions into the plans are all recorded at the same time, and benefit payments all occur on the first of the month. Accordingly, the money-weighted rate of return is considered to be the same for all plans within the portfolio. The annual money-weighted rate of return expressing investment performance, net of investment expenses and adjusted for the changing amounts actually invested, for the Defined Benefit portfolio is 0.40 percent for 2015.

During 2016, OPERS managed investments in four investment portfolios: the Defined Benefit portfolio, the 401(h) Health Care Trust portfolio, the 115 Health Care Trust portfolio and the Defined Contribution portfolio. The 401(h) Health Care Trust portfolio was closed as of June 30, 2016 and the net position transferred to the 115 Health Care Trust portfolio on July 1, 2016. The Defined Benefit portfolio contains the investment assets of the Traditional Pension Plan, the defined benefit component of the Combined Plan and the annuitized accounts of the Member-Directed Plan. The Defined Benefit portfolio historically included the assets of the Member-Directed retiree medical accounts funded through the VEBA Trust. However, the VEBA Trust was closed as of June 30, 2016 and the net position transferred to the 115 Health Care Trust portfolio on July 1, 2016. Within the Defined Benefit portfolio, contributions into the plans are all recorded at the same time, and benefit payments all occur on the first of the month. Accordingly, the money-weighted rate of return is considered to be the same for all plans within the portfolio. The annual money-weighted rate of return expressing investment performance, net of investment expenses and adjusted for the changing amounts actually invested, for the Defined Benefit portfolio is 8.3 percent for 2016.

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

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

Discount Rate The discount rate used to measure the total pension liability was 7.50 percent, post-experience study results and 8.00 percent prior to that. 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 contractually required rates, as actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefits payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
District's proportionate share of the net pension liability for calendar year 2017:	$ 378,020	$ 247,440	$ 138,625

	1% Decrease (7.00%)	Current Discount Rate (8.00%)	1% Increase (9.00%)
District's proportionate share of the net pension liability for calendar year 2016:	$ 305,499	$ 191,746	$ 95,800

NOTE 7: POST-EMPLOYMENT BENEFITS

Ohio Public Employees Retirement System

Plan Description – Ohio Public Employees Retirement System (OPERS) administers three separate pension plans: The Traditional Pension Plan – a cost sharing, multiple-employer defined benefit pension plan; the Member-Directed Plan – a defined contribution plan; and the Combined Plan – a cost sharing, multiple employer defined benefit pension plan that has elements of both a defined benefit and defined contribution plan.

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

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

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

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

Funding Policy – The Ohio Revised Code provides the statutory authority requiring public employers to fund post-retirement health care 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 2017 and 2016, State and Local employers contributed at a rate of 14.0 percent of earnable salary and Public Safety and Law Enforcement employers contributed at 18.1 percent. These are the maximum employer contribution rates permitted by the Ohio Revised Code. Active member contributions do not fund health care.

Each year the OPERS Board determines the portion of the employer contribution rate that will be set aside to fund health care plans. The portion of employer contributions allocated to health care for members in the Traditional Pension Plan and Combined Plan was 1 percent during calendar year 2017 and 2 percent during calendar year 2016. As recommended by OPERS' actuary, the portion of employer contributions allocated to health care beginning January 1, 2018 decreased to 0 percent for both plans. The OPERS Board is also authorized to establish rules for the retiree or their surviving beneficiaries to pay a portion of the health care provided. Payment amounts vary depending on the number of covered dependents and the coverage selected. The employer contribution as a percentage of covered payroll deposited into the RMA for participants in the Member-Directed Plan for 2017 and 2016 was 4 percent.

Substantially all of the District's contributions allocated to fund post-employment health care benefits relates to the cost-sharing, multiple employer trusts. The corresponding contributions for the years ended December 31, 2017, 2016, and 2015 were $1,493, $2,765 and $2,565 respectively. For 2017, 90 percent has been contributed with the balance being reported as an accrued liability. The full amount has been contributed for 2016 and 2015.

NOTE 8: RISK MANAGEMENT

The District is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, errors and omissions, inquiries to employees and natural disasters. Significant risk of losses is covered by commercial insurance. The District has not significantly reduced this coverage from the prior year. Settled claims have not exceeded coverage in any of the past three years.

NOTE 9: CHANGES IN ACCOUNTING PRINCIPLES

For the year ended December 31, 2017, the District has implemented Governmental Accounting Standards Board (GASB) Statement No. 80, *Blending Requirements for Certain Component Units - an amendment of GASB Statement No. 14,* GASB Statement No. 81, *Irrevocable Split-Interest Agreements* and GASB Statement No. 82, *Pension Issues - an amendment of GASB Statements No. 67, No. 68, and No. 73.*

GASB Statement No. 80 amends the blending requirements for the financial statement presentation of component units of all state and local governments. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The implementation of GASB Statement No. 80 did not have an effect on the financial statements of the District.

GASB Statement No. 81 requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. Furthermore, it requires that a government recognize assets representing its beneficial interests in irrevocable split-interest agreements that are administered by a third party, if the government controls the present service capacity of the beneficial interests. This Statement also requires that a government recognize revenue when the resources become applicable to the reporting period. The implementation of GASB Statement No. 81 did not have an effect on the financial statements of the District.

GASB Statement No. 82 improves consistency in the application of pension accounting. These changes were incorporated in the District's 2017 financial statements; however, there was no effect on beginning net position.

For the 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*, GASB Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans,* 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. The implementation of GASB Statement No. 72 did not have an effect on the financial statements of the District.

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 disclosure of tax abatement information about (1) a reporting government's own tax abatement agreements and (2) those that are entered into by other governments and that reduce the reporting government's tax revenues. The implementation of GASB Statement No. 77 did not have an effect on the financial statements of the District.

GASB Statement No. 78 amends the scope of GASB Statement No. 68 to exclude certain multiple-employer defined benefit pension plans provided to employees of state and local governments on the basis that obtaining the measurements and other information required by GASB Statement No. 68 was not feasible. The implementation of GASB Statement No. 78 did not have an effect on the financial statements of the District.

GASB Statement No. 79 establishes accounting and financial reporting standards for qualifying external investment pools that elect to measure for financial reporting purposes all of their investments at amortized cost. This Statement provides accounting and financial reporting guidance also establishes additional note disclosure requirements for governments that participate in those pools. The implementation of GASB Statement No. 79 did not have an effect on the financial statements of the District.

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Western Guernsey Regional Water District
Guernsey County, Ohio
Required Supplementary Information
Schedule of the District's Proportionate Share of the Net Pension Liability
Last Four Years (1)

	2017	2016	2015	2014
Ohio Public Employees' Retirement System (OPERS)				
District's Proportion of the Net Pension Liability	0.0010896%	0.0011070%	0.0009340%	0.0009340%
District's Proportionate Share of the Net Pension Liability	$ 247,440	$ 191,746	$ 112,651	$ 110,106
District's Covered Payroll	$ 138,242	$ 128,258	$ 114,483	$ 121,369
District's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	178.99%	149.50%	98.40%	90.72%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	77.25%	81.08%	86.45%	86.36%

(1) Information prior to 2014 is not available.

Note: The amounts presented for each fiscal year were determined as of the measurement date, which is the prior fiscal year.

Notes:
Ohio Public Employees' Retirement System (OPERS)

Changes of Benefit Terms: None.

Changes of Assumptions: Amounts reported in 2017 reflect an adjustment of the rates of withdrawal, disability, retirement and mortality to more closely reflect actual experience. The expectation of retired life mortality was based on RP-2014 Healthy Annuitant mortality table and RP-2014 Disabled mortality table. The following reductions were also made to the actuarial assumptions:

- Discount rate from 8.00% to 7.50%
- Wage inflation rate from 3.75% to 3.25%
- No change in price inflation

Western Guernsey Regional Water District
Guernsey County, Ohio
Required Supplementary Information
Schedule of District Contributions
Last Five Years (1)

	2017	2016	2015	2014	2013
Ohio Public Employees' Retirement System (OPERS)					
Contractually Required Contribution	$ 19,415	$ 16,589	$ 15,391	$ 13,738	$ 15,778
Contributions in Relation to the Contractually Required Contribution	(19,415)	(16,589)	(15,391)	(13,738)	(15,778)
Contribution Deficiency (Excess)	$ 0	$ 0	$ 0	$ 0	$ 0
District's Covered Payroll	$ 149,343	$ 138,242	$ 128,258	$ 114,483	$ 121,369
Contributions as a Percentage of Covered Payroll	13.00%	12.00%	12.00%	12.00%	13.00%

(1) Information prior to 2013 is not available.

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

Western Guernsey Regional Water District
Guernsey County
61786 Shaw Road
Cambridge, Ohio 43725

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 business-type activities and the major fund of the Western Guernsey Regional Water District, Guernsey County, Ohio (the District), as of and for the years ended December 31, 2017 and 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated November 1, 2018.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all internal control deficiencies that might be material weaknesses or significant deficiencies. Therefore, unidentified material weaknesses or significant deficiencies may exist. Given these limitations, we did not identify any deficiencies in internal control that we consider material weaknesses. We did identify a certain deficiency in internal control, described in the accompanying Schedule of Findings that we consider a significant deficiency. We consider Finding 2017-001 to be a significant deficiency.

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 an instance of noncompliance or other matters we must report under *Government Auditing Standards* which is described in the accompanying Schedule of Findings as item 2017-001.

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 report is not suitable for any other purpose.

Dave Yost

Dave Yost
Auditor of State
Columbus, Ohio

November 1, 2018

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

FINDING NUMBER 2017-001

Noncompliance/Significant Deficiency

Ohio Rev. Code § 5705.28(B)(2)(a) states that the taxing authority of a taxing unit that does not levy a tax is not required to adopt a tax budget pursuant to division (A) of this section. Instead, on or before the fifteenth day of July each year, such taxing authority shall adopt an operating budget for the taxing unit for the ensuing fiscal year. The operating budget shall include an estimate of receipts from all sources, a statement of all taxing unit expenses that are anticipated to occur, and the amount required for debt charges during the fiscal year. The operating budget is not required to be filed with the county auditor or the county budget commission.

According to Ohio Rev. Code § 5705.28(B)(2), a water district is still required to follow Ohio Rev. Code §§ 5705.36, 5705.38, 5705.40, 5705.41, 5705.43, 5705.44 and 5705.45. However, documents prepared in accordance with such sections are not required to be filed with the county auditor or county budget commission. Also, while Ohio Rev. Code § 5705.39 does not apply, § 5705.28(B)(2)(c) prohibits appropriations from exceeding estimated revenue (i.e. receipts + beginning unencumbered cash).

Ohio Rev. Code § 5705.44 contains an exception that payments made from "earnings" are not required to use the Ohio Rev. Code § 5705.41(D) certificate. Therefore, payments from the utility operating fund do not require certification. (However, payments from utility grant funds do require certification.)

Ohio Admin. Code § 117-2-02 requires all local public offices to maintain an accounting system and accounting records sufficient to enable the public office to identify, assemble, analyze, classify, record and report its transactions, maintain accountability for the related assets (and liabilities, if generally accepted accounting principles apply), document compliance with finance-related legal and contractual requirements and prepare financial statements required by rule 117-2-03 of the Administrative Code.

Ohio Admin. Code § 117-2-02(D)(3) states all local public offices should include an appropriation ledger, which may assemble and classify disbursements or expenditures/expenses into separate accounts for, at a minimum, each account listed in the appropriation resolution. The amount, fund, date, check number, amount of disbursement, uncommitted balance of appropriations and any other information required may be entered in the appropriate columns.

The District did not comply with the aforementioned budgetary laws for the periods ended December 31, 2017 and 2016. The District did not pass appropriations; therefore, the District was unable to monitor operations via the control that budgeting provides.

The District's budgetary accounting system did not allow for ensuring appropriations did not exceed estimated resources or if expenditures/expenses exceeded appropriations.

The District should pass appropriations and integrate the budgetary information in the accounting system to ensure budgetary compliance.

Officials' Response: We did not receive a response from Officials to this finding.

WESTERN GUERNSEY REGIONAL WATER DISTRICT

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SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2017 AND 2016

Finding Number	Finding Summary	Status	Additional Information
2015-001	Noncompliance under Ohio Rev. Code § 5705.28(B) and § 5705.41(D) – the District did not comply with budgetary laws.	Not Corrected.	Repeated as Finding 2017-001.
2015-002	Material Weakness, not maintaining adequate documentation regarding inventory/not properly recording all transactions regarding accounts receivables.	Fully Corrected.	N/A

WESTERN GUERNSEY REGIONAL WATER DISTRICT

GUERNSEY 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
NOVEMBER 27, 2018

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