



OHIO AUDITOR OF STATE
KEITH FABER



**ADAMS COUNTY REGIONAL WATER DISTRICT
ADAMS COUNTY**

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OHIO AUDITOR OF STATE KEITH FABER



INDEPENDENT AUDITOR'S REPORT

Adams County Regional Water District
Adams County
9203 State Route 136
West Union, Ohio 45693

To the Board of Trustees:

Report on the Financial Statements

We have audited the accompanying financial statements of the Adams County Regional Water District, Adams County, Ohio (the District), as of and for the year ended December 31, 2018, 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 opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Adams County Regional Water District, Adams County as of December 31, 2018, 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.

Emphasis of Matter

As discussed in Note 17 to the financial statements, during fiscal year 2018, the District adopted new accounting guidance in Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*. We did not modify our opinion regarding this matter.

Other Matters

Required Supplementary Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 15, 2019, 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.



Keith Faber
Auditor of State
Columbus, Ohio

April 15, 2019

Adams County Regional Water District

Management's Discussion and Analysis

The following discussion provides a summary overview of the financial activities of the Adams County Regional Water District ("the District") for the year ended December 31, 2018. The information should be read in conjunction with the basic financial statements included in this report.

The Management's Discussion and Analysis (MD&A) is an element of reporting model adopted by the Governmental Accounting Standard Board (GASB) in their Statement No. 34 issued June, 1999. Certain comparative information between the current year and the prior year is required to be presented, and is presented in the MD&A.

Financial Highlights

- Assets exceeded liabilities by \$9,014,609 and \$8,122,152 as of December 31, 2018 and 2017 respectively.
- Net positions increased by \$892,656 and \$644,313 in 2018 and 2017 respectively.
- Operating revenues decreased by \$88,923 (2.1%) and increased by \$161,429 (4%) and operating and maintenance expenses increased by \$343 (<.1%) and decreased by \$48,796 (1.3%) in 2018 and 2017 respectively.
- Retirement of debt principal totaled \$838,840 and \$797,269 for 2018 and 2017 respectively and additions to debt principal totaled \$301,364 for 2018 and \$91,826 for 2017.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements are the Statements of Net Position, the Statements of Revenues, Expenses and Changes in Net Position, the Statements of Cash Flows and the accompanying notes to the financial statements. These statements report information about the District as a whole and about its activities. The District is a single enterprise fund using proprietary fund accounting, which means these statements are presented in a manner similar to a private-sector business. The statements are presented using the economic resources measurement focus and the accrual basis of accounting.

The Statements of Net Position presents the District's financial position and reports the resources owned by the District (assets), obligations owed by the District (liabilities) and District net position (the difference between assets and liabilities). They provide a way to measure the financial health of the District by providing the basis for evaluating the capital structure of the District and assessing the liquidity and financial flexibility of the District.

Adams County Regional Water District

Management's Discussion and Analysis (Continued)

Overview of the Financial Statements (Continued)

The Statements of Revenues, Expenses and Changes in Net Position present a summary of how the District's net position changed during the year. Revenue is reported when earned and expenses are reported when incurred. These statements measure the success of the District's operations over the past year and can be used to determine whether the District has successfully recovered all its costs through user fees.

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

The notes to the financial statements provide additional information that is essential for a full understanding of the financial statements.

Financial Analysis of the District's Financial Position and Results of Operations

The tables below provide a summary of the District's financial position and operations for 2018 and 2017 respectively.

Table 1

| | 2018 | 2017 |
|--|---------------------|---------------------|
| <u>Assets</u> | | |
| Current & other assets | \$ 7,943,914 | \$ 7,234,546 |
| Capital assets, net | 11,338,354 | 11,682,468 |
| Deferred Outflows | 277,863 | 606,661 |
| Total assets/outflows | 19,560,131 | 19,523,675 |
| <u>Liabilities</u> | | |
| Current & other liabilities | 3,016,192 | 2,978,394 |
| Long-term debt | 7,251,467 | 7,816,469 |
| Deferred Inflows | 283,774 | 9,406 |
| Total liabilities/inflows | 10,551,433 | 10,804,269 |
| <u>Net Position</u> | | |
| Invested in capital assets, net of related debt | 3,224,794 | 3,031,432 |
| Restricted for debt service | 133,639 | 154,105 |
| Unrestricted | 5,650,265 | 5,533,869 |
| Total net position | \$ 9,008,698 | \$ 8,719,406 |

Financial Analysis of the District's Financial Position and Results of Operations

As noted earlier, the net position may serve as a useful indicator of financial position. The District's assets exceeded liabilities by \$9,014,609 as of December 31, 2018 compared to \$8,122,152 as of December 31, 2017. The net investment in capital assets as of December 31, 2018 was \$3,224,794 in comparison to \$3,031,432 as of December 31, 2017,

Adams County Regional Water District

Management's Discussion and Analysis (Continued)

Financial Analysis of the District's Financial Position and Results of Operations

The largest portion of the District's net position is reflected in its cash and certificates of deposit, and its capital assets, less accumulated depreciation and related debt outstanding. The District strives to keep adequate cash reserves on hand in order to maintain or expand its facilities to meet the needs of its customers and to comply with regulatory requirements.

For the year ended December 31, 2018 and 2017 respectively, total assets of the District increased by \$365,254 and \$139,944 due to increased capital assets (offset by accumulated depreciation) and increased cash and cash equivalents, due to reduction in receivables and inventories. Total liabilities as of December 31, 2018 and 2017 decreased by \$527,204 and \$231,615 respectively due mainly to retirement of debt. Also, the \$575,991 decrease in net pension liability was offset by \$648,698 net OPEB liability at December 31, 2018 due to the implementation of GASB 75.

The following table summarizes the changes in revenues and expenses for the District between 2018 and 2017:

Table 2
Condensed Statements of Revenues, Expenses and Changes in Net Position
For the Years Ended December 31,

| | <u>2018</u> | <u>2017</u> |
|------------------------------------|------------------|------------------|
| <u>Operating revenue</u> | | |
| Sales to customers | \$ 3,131,522 | \$ 3,204,950 |
| Sales to public authorities | 816,218 | 825,720 |
| Other revenues | 126,545 | 132,538 |
| Total operating revenue | <u>4,074,285</u> | <u>4,163,208</u> |
| <u>Non-operating revenue</u> | | |
| Grant revenue | 433,157 | 251,565 |
| Interest income | 74,113 | 43,485 |
| Insurance Proceeds | 19,910 | 5,854 |
| Principal forgiveness revenue | 99,247 | - |
| Gain on disposal of assets | - | - |
| Total non-operating revenue | <u>626,427</u> | <u>300,904</u> |
| Total revenue | <u>4,700,712</u> | <u>4,464,112</u> |
| <u>Operating expense</u> | | |
| Operations | 1,925,504 | 1,899,224 |
| Maintenance | 208,715 | 234,652 |
| Depreciation | 1,504,093 | 1,488,534 |
| Total operating expense | <u>3,638,312</u> | <u>3,622,410</u> |

Adams County Regional Water District

Management's Discussion and Analysis (Continued)

Financial Analysis of the District's Financial Position and Results of Operations (Continued)

Table 2 (Continued)
Condensed Statements of Revenues, Expenses and Changes in Net Position
For the Years Ended December 31,

| | 2018 | 2017 |
|---|-------------------|-------------------|
| Non-operating expense | | |
| Interest expense | 253,797 | 279,866 |
| Loss on disposal of assets | 3,367 | - |
| Total non-operating expense | <u>257,164</u> | <u>279,866</u> |
| Total expense | <u>3,895,476</u> | <u>3,902,276</u> |
| <u>Income (Loss) before contributions</u> | 805,236 | 561,836 |
| <u>Capital contributions</u> | | |
| Contributions revenue | 7,470 | 9,677 |
| Tap fee revenue | 79,950 | 72,800 |
| Total capital contributions | <u>87,420</u> | <u>82,477</u> |
| Change in net position | <u>\$ 892,656</u> | <u>\$ 644,313</u> |

Operating revenues consist of user charges for water consumption. Operating expenses reflect the cost of providing these services. For the year ended December 31, 2018:

- Operating revenue decreased \$88,923 (2.1%) and increased \$161,429 (4%) in 2018 and 2017 respectively.
- Non-operating revenues increased by \$325,523 (108%) and decreased by \$103,723 (21.7%) due to an increase in grant revenue, interest income and principal forgiveness revenue in 2018 and grant revenue in 2017 respectively.
- Operating expenses increased by \$15,902 (.4%) and decreased by \$48,796 (1.3%) due to an increase and decrease in salaries, utilities, repairs, pension and insurance in 2018 and 2017 respectively. Total expenses decreased by \$6,800 (.2%) and by \$19,268 (.50%) in 2018 and 2017 respectively.

Capital contributions increased by \$4,943 (6%) and decreased by \$24,527 (42.3%) in 2018 and 2017 respectively. These contributions consist of customer contributions, grants from various agencies used to help cover the costs of line extensions and tap fees.

Adams County Regional Water District

Management's Discussion and Analysis (Continued)

Capital Assets

As of December 31, 2018 and 2017 respectively, the District had \$11,338,354 and \$11,682,468 invested in capital assets. This amount represents a net decrease of \$344,114 (2.9%) in 2018 and \$619,211 (5%) 2017.

Table 3
Capital Assets
December 31,

| | 2018 | 2017 |
|-----------------------------------|-----------------------------|-----------------------------|
| Land and improvements | \$ 875,186 | \$ 875,186 |
| Construction in progress | 1,032,002 | 547,191 |
| Buildings | 688,916 | 673,120 |
| Wells and wellfield improvements | 1,773,686 | 1,769,726 |
| Mains, lines, and meters | 30,261,168 | 29,665,814 |
| Storage tanks | 3,094,093 | 3,094,093 |
| Water treatment & other equipment | 2,033,374 | 2,001,637 |
| Less: Accumulated depreciation | <u>(28,420,071)</u> | <u>(26,944,299)</u> |
| Totals | <u>\$ 11,338,354</u> | <u>\$ 11,682,468</u> |

Major additions in 2018 and 2017
at cost included:

| | | |
|----------------------------------|-------------------|-------------------|
| Telemetry - Louisville Tank | - | 15,640 |
| Louisville Storage Tank | - | 460,028 |
| 2018 Chevrolet Equinox | - | 23,529 |
| 2018 K2500 Chevy Truck | - | 30,530 |
| Kubota RTV | - | 12,904 |
| Generac Generator | - | 12,500 |
| Pitless Adapters Phase IV | - | 50,282 |
| GIS - Phase 1 | 53,466 | - |
| Locust Grove Rehab Project | 492,011 | - |
| Camera Install at WTP | 11,958 | - |
| SEMS Software - Asset Management | 32,995 | - |
| | <u>\$ 590,430</u> | <u>\$ 605,413</u> |

Debt Administration

The District finances its construction primarily through the issuance of revenue bonds or through low interest loan programs with the State of Ohio. At December 31, 2018, the District had total debt outstanding of \$8,113,560 compared to \$8,651,036 at December 31, 2017. This represents a net decrease in 2018 of \$537,476 and 2017 of \$705,444 due to principal payments on debt.

Adams County Regional Water District

Management's Discussion and Analysis (Continued)

Economic Factors for 2018 and Budget for 2019

Additional information on the District's long-term debt can be found in Note 5 to the financial statements.

Adams County Regional Water District increased water rates in March of 2017. The minimum bill was raised to \$21.00 for the first 1000 gallons and \$7.00 per thousand thereafter for a 5/8" tap. Larger-sized taps increased proportionately. Wholesale rates increased to \$3.55 per thousand in July of 2017. A rate study will be performed in 2020 to determine if an increase in rates is needed to meet expenses for the following four years.

The number of water taps sold by the District remained minimal as in the last few years. A total of fifty-eight taps were sold in 2018. The District anticipates selling approximately fifty taps in 2019.

Improvements made in the District during 2018 included small line extensions on Jacksonville Road, Dale Rufener Road, and State Route 348/Holcomb Boulevard. Upgrades were made to the District's camera and security system at the water treatment plant, as well as the purchase of a chlorine gas detector sensor, an environmental pump, a chlorine ejector, a potassium permanganate pump, and four new dehumidifiers. Two pieces of road boring equipment were purchased for the distribution crew's use. Improvements were made to various buildings, including new glass installation with speakers for the business office and a new roof for the maintenance crew building. The District continued working on the geographical information system (GIS) with Phase I completed in 2018. Phase II was begun, which will include adding the District's water lines to the system. SEMS Technology software was purchased for asset management.

Construction of the Locust Grove Water Line Replacement was finished in 2018. The funding for this project was a grant from the Ohio Public Works Commission and District's funds.

Two major projects were constructed in 2018. The US 52 Water Line Replacement consisted of approximately 2,700 feet of 12" line. The other project, Miscellaneous Water Line Extensions, will be finalized in early 2019. Both projects were funded by EPA loans and ARC grants.

The operating budget for 2019 is \$4,128,465. Capital improvements scheduled for 2019 include more cameras and new phone system for the water treatment plant, improvements to buildings and parking lots, the purchase of a lawnmower and two new trucks, miscellaneous pieces of equipment for use in the distribution system and water treatment plant, and the maintenance of pumps and water storage tanks. Additional funds are allocated for continuing asset management and GIS improvements.

Adams County Regional Water District

Management's Discussion and Analysis (Continued)

Economic Factors for 2018 and Budget for 2019 (Continued)

Funds are being sought to replace water lines in the Rigdon Road/Logans Lane areas. This project will allow the District to serve these areas without having to utilize the Village of West Union's water lines to pass through.

Contacting the District's Financial Management

This report is designed to provide the District's customers, bondholders, creditors and other interested parties with an overview of the District's financial operations and financial condition. Should the reader have questions regarding the information included in this report or wish to request additional information, please contact the General Manager, Adams County Regional Water District, 9203 State Route 136, PO Box 427, West Union, OH 45693.

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ADAMS COUNTY REGIONAL WATER DISTRICT
STATEMENT OF NET POSITION
FOR THE YEAR ENDED DECEMBER 31, 2018

ASSETS

Current assets:

| | | |
|--|----|-----------|
| Cash and cash equivalents | \$ | 4,219,114 |
| Certificates of deposit | | 2,526,627 |
| Accounts receivable | | |
| Customers, net of allowance for doubtful accounts of \$11,201 | | 585,033 |
| Other receivables | | 2,300 |
| Accrued interest receivable | | 45,347 |
| Inventories | | 386,275 |
| Prepaid expenses | | 45,579 |
| Total current assets | | 7,810,275 |

Non current assets:

| | | |
|---|--|---------|
| Restricted cash and certificates of deposit | | 133,639 |
|---|--|---------|

Capital assets (at cost):

| | | |
|--------------------------------|--|-----------|
| Non depreciable capital assets | | |
| Land | | 788,396 |
| Construction in progress | | 1,032,002 |
| Total non depreciable assets | | 1,820,398 |

Depreciable capital assets

| | |
|--|--------------|
| Land improvements | 86,790 |
| Buildings | 688,916 |
| Wells and wellfield improvements | 1,773,686 |
| Mains, lines and meters | 30,261,168 |
| Storage tanks | 3,094,093 |
| Water treatment and plant equipment | 571,938 |
| Trucks, tractors and radio equipment | 1,285,857 |
| Office furniture and equipment | 175,579 |
| Less: accumulated depreciation | (28,420,071) |
| Total depreciable capital assets | 9,517,956 |
| Total capital assets (net of depreciation) | 11,338,354 |
| Total non current assets | 11,471,993 |

| | | |
|---------------------|-----------|-------------------|
| Total assets | \$ | 19,282,268 |
|---------------------|-----------|-------------------|

DEFERRED OUTFLOWS OF RESOURCES

| | | |
|---|--|---------|
| Deferred OPEB outflows | | 47,738 |
| Deferred outflow for net diff between projected and actual earnings | | 121,071 |
| Deferred pension contributions | | 109,054 |
| Total deferred outflows of resources | | 277,863 |

**ADAMS COUNTY REGIONAL WATER DISTRICT
STATEMENT OF NET POSITION
FOR THE YEAR ENDED DECEMBER 31, 2018**

| | <u>2018</u> |
|--|----------------------------|
| LIABILITIES | |
| Current liabilities: | |
| Accounts payable | \$ 93,905 |
| Accrued expenses | 265,012 |
| Accrued interest | 118,727 |
| Current portion of long-term debt | 862,093 |
| Customer deposits | <u>23,250</u> |
| Total current liabilities | 1,362,987 |
| | |
| Non current liabilities: | |
| Net OPEB liability | 648,698 |
| Net pension liability | 1,004,507 |
| Long-term debt, less current portion | <u>7,251,467</u> |
| Total non current liabilities | 8,904,672 |
| | |
| Total liabilities | <u>10,267,659</u> |
| | |
| DEFERRED INFLOWS OF RESOURCES | |
| Deferred earnings on OBEP investments | 48,324 |
| Deferred earnings on pension investments | <u>235,450</u> |
| Total deferred inflows of resources | 283,774 |
| | |
| NET POSITION | |
| Net investment in capital assets | 3,224,794 |
| Restricted for debt service | 133,639 |
| Unrestricted net position | <u>5,650,265</u> |
| | |
| Total net position | <u>\$ 9,008,698</u> |

ADAMS COUNTY REGIONAL WATER DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEAR ENDED DECEMBER 31, 2018

OPERATING REVENUES

| | |
|-----------------------------|--------------|
| Sales to customers | \$ 3,131,522 |
| Sales to public authorities | 816,218 |
| Other revenues | 126,545 |
| Total operating revenues | 4,074,285 |

OPERATING EXPENSES

| | |
|-------------------------------|-----------|
| Salaries | 850,272 |
| Utilities | 319,486 |
| Depreciation expense | 1,504,093 |
| Repairs | 167,364 |
| Truck expense | 41,351 |
| Supplies | 65,667 |
| Pension expense | 215,817 |
| Payroll taxes | 17,844 |
| Insurance - other than health | 47,343 |
| Insurance - health & life | 254,660 |
| Office supplies and postage | 29,255 |
| Legal and engineering fees | 2,925 |
| Accounting fees | 23,179 |
| Director fees | 34,200 |
| Advertising | 2,492 |
| Bank charges | 1,900 |
| Bad debt expense | 387 |
| Other expenses | 60,077 |
| Total operating expenses | 3,638,312 |

OPERATING INCOME (LOSS) 435,973

NON OPERATING REVENUES (EXPENSES)

| | |
|---|-----------|
| Grant revenue | 433,157 |
| Interest income | 74,113 |
| Interest expense | (253,797) |
| Insurance proceeds | 19,910 |
| Gain/(loss) on disposal of assets | (3,367) |
| Principal forgiveness revenue | 99,247 |
| Total non operating revenues (expenses) | 369,263 |

INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS 805,236

CAPITAL CONTRIBUTIONS

| | |
|-----------------------------|--------|
| Contributions revenue | 7,470 |
| Tap fees | 79,950 |
| Total capital contributions | 87,420 |

**ADAMS COUNTY REGIONAL WATER DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEAR ENDED DECEMBER 31, 2018**

INCREASE (DECREASE) IN NET POSITION 892,656

NET POSITION

| | |
|--------------------------------|----------------------------|
| Beginning of year | 8,719,406 |
| Prior period adjustment | <u>(603,364)</u> |
| Beginning of year, as restated | <u>8,116,042</u> |
| End of Year | <u><u>\$ 9,008,698</u></u> |

ADAMS COUNTY REGIONAL WATER DISTRICT
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2018

CASH FLOWS FROM OPERATING ACTIVITIES

| | |
|---|------------------|
| Cash receipts from customers | \$ 4,158,956 |
| Cash payments to employees for services | (850,272) |
| Cash payments to suppliers for goods and services | (1,283,396) |
| Cash inflow/outflow of resources | <u>72,509</u> |
| Net Cash provided by Operating Activities | 2,097,797 |

CASH FLOWS FROM INVESTING ACTIVITIES

| | |
|--|----------------|
| Interest income on investments | <u>141,033</u> |
| Net Cash Provided by Investing Activities | 141,033 |

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

| | |
|--|---------------------------|
| Acquisition of operating facilities, including construction in progress and capitalized interest | (1,163,347) |
| Members' tap fees | 79,950 |
| Borrowings on long term obligations | 301,365 |
| Principal forgiveness revenue | 99,247 |
| Insurance proceeds | 19,910 |
| Grant revenue | 433,157 |
| Payments on long term debt obligations | (838,840) |
| Proceeds from construction contributions | 7,470 |
| Interest paid on long term debt obligations | <u>(267,378)</u> |
| Net Cash Used in Capital and Related Financing Activities | <u>(1,328,466)</u> |

NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS 910,364

CASH AND CASH EQUIVALENTS - Beginning of period 5,969,016

CASH AND CASH EQUIVALENTS - End of period \$ 6,879,380

**ADAMS COUNTY REGIONAL WATER DISTRICT
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2018**

**RECONCILIATION OF OPERATING INCOME TO NET CASH
FLOWS PROVIDED BY OPERATING ACTIVITIES:**

| | |
|--|----------------------------|
| Operating Income | \$ 435,973 |
| Adjustments to reconcile operating income to net cash provided by operating activities: | |
| Depreciation | 1,504,093 |
| Contribution of meter readers | - |
| Changes in assets, liabilities and deferred resources: | |
| Accounts receivable, customers and other | 84,671 |
| Inventories | 49,336 |
| Prepaid expenses | 69 |
| Deferred outflows of resources | 328,798 |
| Net pension liability | (575,991) |
| Net OPEB liability | 45,334 |
| Accounts payable and other accrued expenses | (48,854) |
| Deferred inflows of resources | <u>274,368</u> |
| Net Cash Provided by Operating Activities | <u>\$ 2,097,797</u> |

**ADAMS COUNTY REGIONAL WATER DISTRICT
ADAMS COUNTY**

**NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018**

1. DESCRIPTION OF ENTITY

(a) Description of Operations

Adams County Regional Water District (the "District"), was organized under the provisions of Section 6119 of the Ohio Revised Code on January 1, 1997. Prior to that date, the District was operated as an Ohio not-for-profit corporation known as Adams County Water Co., Inc. The District provides water service to its customers in Adams County and a portion of Brown County. The accounting policies used by the District reflect practices common to the industry.

(b) Reporting Entity

The financial reporting entity consists of the Adams County Regional Water District (the primary government). No component units have been separately organized.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Presentation and Accounting

The District's basic financial statements are presented on the full accrual basis of accounting and conform to accounting principles generally accepted in the United States of America.

The accounts of the District are organized on the basis of a proprietary fund type, specifically an enterprise fund. The activities of this fund are accounted for with a separate set of self-balancing accounts that comprise the District's assets, liabilities, net position, revenues and expenses. Enterprise funds account for activities (i) that are financed with debt that is secured solely by a pledge of the net revenues from fees and charges of the activity; or (ii) that are required by laws or regulations that the activity's costs of providing services, including capital costs (such as depreciation or debt service), be recovered with fees and charges, rather than with taxes or similar revenues; or (iii) that the pricing policies of the activity establish fees and charges designed to recover its costs, including capital costs (such as depreciation or debt service).

The accounting and financial reporting treatment applied to the District is determined by its measurement focus. The transactions of the District are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operations are included on the statement of net position. Net position (i.e., total assets net of total liabilities) is segregated into invested in capital assets; restricted for debt service; and unrestricted components.

Management of the District has made certain estimates and assumptions relating to the reporting of assets and liabilities and revenues and expenses to prepare these financial statements in conformity with generally accepted accounting principles. Actual results may differ from those estimates.

**ADAMS COUNTY REGIONAL WATER DISTRICT
ADAMS COUNTY**

**NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(b) 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 District's net position of the pension plans and additions to/deductions from the District's net position have been determined on the same basis as they are reported by the pension systems. For this purpose, deductions are recorded when the liability is incurred and revenues are recognized when earned. Pension benefit payments are due the first day of the month following the retirement of a member, and the first of each month thereafter. Refunds, for any member who makes a written application to withdraw his/her contributions, are payable three months after termination of the member's OPERS-covered employment (updated in law in 2017 to two months). Benefits and refunds are recognized when due and payable in accordance with the terms of the plan. Additions to the pension plans consist of contributions (member and employer), other contracts and receipts, interplan activities, net investment income, and other miscellaneous income measurable pursuant to formal commitments, statutory and contractual requirements. Accordingly, both member and employer contributions for the year ended December 31, 2017 include year-end accruals based upon estimates derived from subsequent payment activity and historical payment patterns. Member and employer contributions are due 30 days after the month in which the salaries are earned and based on pay period end date. Plan changes, settlement activity and other interplan activity are recorded as an addition or deduction based on the nature of the transaction, when the transaction occurs. Investment purchases and sales are recorded as the trade date and generally reported at fair value.

(c) Other Postemployment Benefits

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to health care, and employer OPEB expense, information about the District's net position of health care plans and additions to/deductions from the District's net position have been determined on the same basis as they are reported by the health care systems. For this purpose, deductions are recorded when the liability is incurred and revenues are recognized when earned. Health care payments are considered a liability and recognized in the District's Statement of Net Position when present obligation exists and a condition that requires that the event creating the liability has taken place. Therefore, OPEB plan liabilities are recognized when the payments are currently due and payable in accordance with the health care terms, as clarified in GASB 74. GASB 74 also requires health care expenses be reported net of certain health care receipts.

3. ASSETS, LIABILITIES AND NET POSITION

(a) Cash and Cash Equivalents

For the purposes of the statement of cash flows, the District considers cash in operating bank accounts, money market accounts, and certificates of deposit with an original maturity of three months or less as cash.

(b) Inventories

Inventories are stated at the lower of cost or market using the first-in, first-out method.

**ADAMS COUNTY REGIONAL WATER DISTRICT
ADAMS COUNTY**

**NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018
(Continued)**

3. ASSETS, LIABILITIES AND NET POSITION (Continued)

(c) Capital Assets

Capital assets are stated at cost. Construction period interest is capitalized as part of construction costs. During the years ended December 31, 2018 and 2017, the District capitalized \$13,578 and \$17,446 interest respectively. Depreciation is calculated on the straight-line method over the estimated useful lives of the assets. Maintenance and repairs are expensed as incurred; major renewals and betterments, over a \$1,000 threshold, are capitalized.

(d) Depreciation

Provision for depreciation has been made on the basis of estimated lives of assets, using the straight-line method. Depreciable lives for the various assets are as follows:

| | |
|----------------------------------|-------------|
| Land improvements | 0-20 Years |
| Building | 45 Years |
| Wells and wellfield improvements | 10-20 Years |
| Mains, lines and meters | 20-50 Years |
| Storage tanks | 10-50 Years |
| Equipment | 5-10 Years |

(e) Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the 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 revenues and expenses during the reported period. Actual results could differ from those estimates.

(f) Customer Accounts Receivable

Customer accounts receivable are stated at face value, less an allowance for doubtful accounts. The allowance for doubtful accounts is established through a provision for doubtful accounts charged to expense. Doubtful accounts are charged against the allowance when management believes the collectability of the account is unlikely.

(g) Operating Revenues and Expenses

Operating revenues and expenses consist of those revenues that result from the ongoing principal operations of the District. Operating revenues consist primarily of charges for services. Non-operating revenues and expenses consist of those revenues and expenses that are related to financing and investing type of activities and result from non-exchange transactions or ancillary activities. Revenues are recognized when earned and expenses when incurred. When an expense is incurred for purposes for which there are both restricted and unrestricted net position available, it is the District's policy to apply those expenses to unrestricted net position to the extent such are available and then to restricted net position.

(h) Net Position

Net position comprises the various net earnings from operating income, non-operating revenues and expenses, and capital contributions. Net position is classified in the following three components:

**ADAMS COUNTY REGIONAL WATER DISTRICT
ADAMS COUNTY**

**NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018
(Continued)**

3. ASSETS, LIABILITIES AND NET POSITION (Continued)

Net investment in capital assets – This component of net position consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds is not included in the calculation of net investment in capital assets. Rather, that portion of the debt is included in the same net position component as the unspent proceeds.

Restricted – This component of net position consists of constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

Unrestricted net position – This component of net position consists of net assets that do not meet the definition of “restricted” or “net investment in capital assets.” Of the District’s \$133,639 in restricted net position, none were restricted by enabling legislation.

(i) Investments and Investment Policy

The District has adopted an investment and depository policy, which states that the District will invest in the following instruments, as provided by Section 135.35 of the Ohio Revised Code.

(i) Investments and Investment Policy (Continued)

- Securities of the United States Government
- Federal agency obligations
- Repurchase agreements
- State of Ohio bonds and other obligations
- No-load money market mutual funds
- State Treasurer’s investment pool (STAROhio)
- Certain bankers’ acceptances and commercial paper notes

4. RESTRICTED CASH AND CERTIFICATES OF DEPOSIT

Restricted cash and certificates of deposit consist of savings accounts that represent amounts designated as reserved to comply with loan agreements with the U.S. Department of Agriculture Farmers Home Administration (FMHA) described more fully in Note 5.

**ADAMS COUNTY REGIONAL WATER DISTRICT
ADAMS COUNTY**

**NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018
(Continued)**

5. LONG-TERM DEBT

On April 21, 1999, the District issued \$2,639,424, in water revenue refunding bonds with rates of 4.5% to 6.5% in order to refinance the existing notes payable to FMHA. The terms of the bonds are identical to the previously issued notes and, therefore, no economic gain has been recognized by the District. During 2005, the District issued \$144,000 in a water revenue refunding bond to acquire equipment in connection with the District's water supply system. The bond had a rate of 4.25% which matured in 2016. During 2011, the District entered into two long term debt arrangements related to the Lawshe Road Waterline Extension. The District borrowed \$173,713 from the Ohio Public Works Commission. The loan has a 0% interest rate and a final maturity in 2041. The District also obtained a Water Resource Revenue Bond from the United States of America Department of Agriculture for \$736,000 at a rate of 2.38% with a maturity of 2050.

During 2012, the United States Department of Agriculture Rural Development reviewed the District's debt and requested that the District use some reserve funds to pay off the set of water revenue refunding bonds with the interest rate of 6.5%, due to the high interest rate of the bonds and the low interest rate on certificates of deposit. After reviewing the set of bonds, the Board of Trustees agreed and authorized a final payment of \$139,196 on November 19, 2012. This early extinguishment of debt will save approximately \$53,000 in interest over the next 11 years.

During 2013, District entered into one long term debt arrangement related to the Sunshine Ridge Waterline Extension. The District borrowed \$427,718 from the Environmental Protection Agency's Drinking Water Assistance Fund through the Ohio Water Development Authority. Of this amount, \$126,982 of the principal has been forgiven, leaving the loan balance at \$300,736. This loan has a 1.88% interest rate and a final maturity in 2043.

During 2015, the District obtained a loan through the Ohio Water Development Authority's Drinking Water Fund for the Bettys Creek/Peach Mountain Waterline Extension. The amount of loan proceeds disbursed was \$239,820. Of this amount, \$47,320 of the principal has been forgiven, leaving the loan at \$192,500. 40 payments over 20 years which began July 1, 2016 with an interest rate of 1.39% and a final maturity in January 1, 2036.

Due to the high interest rate of 4.5% and the low interest rates of certificates of deposit, the Assistant General Manager suggested that the District use some reserve funds to pay off Loan #91-07. The Board of Trustees agreed and authorized a final payment of \$237,800 on October 24, 2015. This early extinguishment of debt saved approximately \$117,000 in interest over the next 19 years.

On February 18, 2016, The Ohio Water Development Authority (OWDA) implemented an interest rate buy-down program to assist local borrowers with interest rates higher than 4.00%. The buy-down, which reduced rates to 4.00%, commenced retroactively with the payment due on January 1, 2016 and will carry through to the maturity date of the affected loans. The total amount of estimated savings the District will realize over the remaining life of these loans is \$922,557.

The construction of a water storage tank in the Louisville Road area was begun in 2016 and completed in 2017. Funding for this project included an Ohio Public Works Commission loan in the amount of \$103,564, and a loan through the Water Supply Revolving Loan Account from the Ohio EPA for \$10,698. The semi-annual payments for the OPW Loan began July 1, 2018 (interest-free) for 30 years, while Water Supply Revolving Loan began January 1, 2018 with an interest rate of 1.08% for 20 years.

**ADAMS COUNTY REGIONAL WATER DISTRICT
ADAMS COUNTY**

**NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018
(Continued)**

5. LONG-TERM DEBT (Continued)

Two major projects were constructed in 2018. The US 52 Water Line Replacement Project and the Miscellaneous Water Line Extensions, which will be finalized in early 2019. Both projects were funded by EPA loans and ARC grants. Funding for the US Water Line Replacement Project consists of an

OWDA Loan in the amount of \$54,940, amortized over 20 years at 1.31% interest rate, with semi-annual payments of \$1,566 each beginning January 1, 2019. The District also obtained a \$283,473 OWDA loan for the Miscellaneous Lines Project in 2018. This terms of this loan includes 0% interest, 20-year, semi-annual payments of \$7,087, beginning July 1, 2019. At December 31, 2018, the outstanding balance for the Miscellaneous Lines Project OWDA Loan is \$246,424. The final draw of \$37,049 has yet to be disbursed.

The original amount of each issue, the maturity date, and interest rates are summarized below:

| Amount of Original Issue | Final Maturity Date | Interest Rate |
|---|------------------------------------|--------------------------|
| \$ 322,095 | 2034 | 4.50% |
| \$ 242,304 | 2015 | 5.00% |
| \$ 987,342 | 2019 | 5.00% |
| \$ 246,725 | 2018 | 5.00% |
| \$ 195,658 | 2012 | 6.50% |
| \$ 144,000 | 2015 | 4.25% |
| \$ 736,000 | 2050 | 2.38% |
| \$ 300,754 | 2044 | 1.88% |
| \$ 173,713 | 2041 | 0.00% |
| \$ 192,500 | 2036 | 1.39% |
| \$ 10,698 | 2037 | 1.08% |
| \$ 103,564 | 2048 | 0.00% |
| \$ 54,941 | 2038 | 1.31% |
| \$ 283,473 | 2039 | 0.00% |

**ADAMS COUNTY REGIONAL WATER DISTRICT
ADAMS COUNTY**

**NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018
(Continued)**

5. LONG-TERM DEBT (Continued)

The annual debt service requirements to maturity, including principal and interest for long-term debt as of December 31, 2018, are as follows:

| | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|-----------|---------------------|--------------------|--------------------|
| 2019 | 870,838 | 252,021 | 1,122,859 |
| 2020 | 843,539 | 222,785 | 1,066,324 |
| 2021 | 884,736 | 193,654 | 1,078,390 |
| 2022 | 928,322 | 163,997 | 1,092,319 |
| 2023 | 971,124 | 132,708 | 1,103,832 |
| 2024-2028 | 2,607,084 | 238,085 | 2,845,169 |
| 2029-2033 | 321,595 | 71,806 | 393,401 |
| 2034-2038 | 313,508 | 51,663 | 365,171 |
| 2039-2043 | 211,226 | 32,914 | 244,140 |
| 2044-2048 | 143,235 | 15,839 | 159,074 |
| 2049-2050 | <u>55,400</u> | <u>1,981</u> | <u>57,381</u> |
| Total | <u>\$ 8,150,607</u> | <u>\$1,377,453</u> | <u>\$9,528,060</u> |

The following is a summary of changes in long-term debt for the year ended December 31, 2018:

| | Balance 12/31/2017 | Additions | Principal Payments | Balance 12/31/2018 | Due Within One Year |
|---|-----------------------|-----------|-----------------------|-----------------------|------------------------|
| 1999 water revenue refunding bonds R-3/R-4 | 162,300 | - | 89,100 | 73,200 | 73,200 |
| 2011 water resource revenue bond R-91-10 | 651,600 | - | 13,200 | 638,400 | 13,600 |
| N/P OWDA, semiannual installments of \$342,839, #3287 | 4,638,436 | - | 395,501 | 4,242,935 | 421,177 |
| N/P OWDA, semiannual installments of \$66,981, #2598 | 867,032 | - | 116,621 | 750,411 | 118,954 |
| N/P OWDA, semiannual installments of \$54,013, #3127 | 605,051 | - | 72,570 | 532,481 | 76,823 |

**ADAMS COUNTY REGIONAL WATER DISTRICT
ADAMS COUNTY**

**NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018
(Continued)**

5. LONG-TERM DEBT (Continued)

| | Balance 12/31/2017 | Additions | Principal Payments | Balance 12/31/2018 | Due Within One Year |
|---|-----------------------|-----------|-----------------------|-----------------------|------------------------|
| N/P OWDA, semiannual installments of \$25,260, #2138 | 306,406 | - | 33,949 | 272,457 | 35,863 |
| N/P OWDA, semiannual installments of \$53,061, #2599 | 732,136 | - | 91,480 | 640,656 | 93,309 |
| N/P OWDA, semiannual installments of \$1,591, #3600 | 13,869 | - | 2,499 | 11,370 | 2,629 |
| N/P OPW, semiannual installments of \$2,895, #91-04 | 138,971 | - | 5,791 | 133,180 | 5,790 |
| N/P OWDA, semiannual installments of \$6,581, #6405 | 241,134 | - | 7,268 | 233,866 | 7,406 |
| N/P OWDA, semiannual installments of \$5,529, #6950 | 179,839 | - | 8,588 | 171,251 | 8,708 |
| N/P OWDA, semiannual installments of \$298.10, #7402 1/1/18 1st pmt | 10,698 | - | 548 | 10,150 | 487 |
| N/P OPW, semiannual installments of \$1726.06, #CO03S | 103,564 | - | 1,726 | 101,838 | 3,452 |
| N/P OWDA, semiannual installments of 1565.76, #7949 1/1/19 1st pmt | - | 54,940 | - | 54,940 | 2,420 |

**ADAMS COUNTY REGIONAL WATER DISTRICT
ADAMS COUNTY**

**NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018
(Continued)**

5. LONG-TERM DEBT (Continued)

| | Balance | | Principal | | Balance | Due Within |
|--|------------|-----------|-----------|--|------------|------------|
| | 12/31/2017 | Additions | Payments | | 12/31/2018 | One Year |
| N/P OWDA, semiannual installments of \$7086.83, #7976 7/1/19 1st pmt | - | 246,424 | - | | 246,424 | - |
| | 8,651,036 | 301,364 | 838,841 | | 8,113,559 | 863,818 |

Capital assets, together with all revenue and service charges which may arise from the operations of the District, are pledged for the payment of revenue bond debt.

The notes payable OWDA and OPWC are secured by operating facilities.

Bond indentures contain significant requirements for debt reserve and flow of funds through restricted accounts. The District is required to accumulate over a ten year period a reserve balance equal to one annual installment including principal and interest. The reserve balance at December 31, 2018 and 2017 was \$133,639 and \$154,105 respectively. This amount equaled the required reserve.

6. CONTRIBUTIONS IN AID OF CONSTRUCTION

Contributions in aid of construction consist of contributions from customers and grants from FMHA and various government agencies for the construction of water mains to serve customers.

7. EQUITY IN POOLED CASH AND CASH EQUIVALENTS

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

Active deposits are public deposits necessary to meet current demands on the treasury. Such monies must be maintained either as cash in the District treasury, in commercial accounts payable or 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 either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts, including, but not limited to, passbook accounts.

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

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

**ADAMS COUNTY REGIONAL WATER DISTRICT
ADAMS COUNTY**

**NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018
(Continued)**

7. EQUITY IN POOLED CASH AND CASH EQUIVALENTS (Continued)

1. United States treasury notes, bills, bonds, or any other obligations or securities issued by the United States treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including, but not limited to: 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 items (1) and (2) of this footnote and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
7. The State Treasurer's investment pool (STAROhio)
8. Securities lending agreements in which the District lends securities and the eligible institution agrees to exchange either securities described in division (1) or (2), or cash, or both securities and cash, equal value for equal value;
9. High grade commercial paper in an amount not to exceed five percent of the District's total average portfolio; and
10. Bankers acceptances for a period not to exceed 270 days and in an amount not to exceed ten percent 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 Treasurer 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. Investments 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.

**ADAMS COUNTY REGIONAL WATER DISTRICT
ADAMS COUNTY**

**NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018
(Continued)**

7. EQUITY IN POOLED CASH AND CASH EQUIVALENTS (Continued)

Investments may only be made through specified dealers and institutions.

Payment for investments may be made only upon delivery of the securities representing the investments to the Treasurer or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

Cash on Hand: At December 31, 2018 and 2017, the District had \$108 and \$187 respectively, in undeposited cash on hand which is included on the statement of net position of the District as part of "cash and cash equivalents".

Deposits: Custodial credit risk is the risk that in the event of a bank failure, the District will not be able to recover deposits or collateral securities that are in the possession of an outside party. At year end, all of the District's bank balance of \$ 6,879,272 was either covered by Federal Deposit Insurance or collateral was held by the pledging banks trust department not in the District's name.

The District has not deposit policy for custodial risk beyond the requirements of State statute. Ohio law requires that deposits either be insured or protected by:

Eligible securities pledged to the District and deposited with a qualified trustee by the financial institution as security for repayment whose market value at all times shall be a least 105 percent of the deposits being secured; or

Participation in the Ohio Pooled Collateral System (OPCS), a collateral pool of eligible securities deposited with a qualified trustee and pledged to the Treasurer of State to secure the repayment of all public monies deposited in the financial institution. OPCS requires the total market value of the securities pledged to be 102 percent of the deposits being secured or a rate set by the Treasurer of State.

All of the District's financial institutions are enrolled in the OPCS.

Concentration of Credit Risk: Concentration of credit risk is the risk of loss attributed to the magnitude of the government's investments in a single issuer.

8. PENSION BENEFITS

The District's investment policy does not address concentration of credit risk.

Statement No. 68 of the Governmental Accounting Standards Board (GASB), *Accounting and Financial Reporting for Pensions - An Amendment of GASB Statement No. 27* which requires public employers to provide detailed disclosure of pension information in financial statements and accompanying information.

(a) Ohio Public Employees Retirement System (OPERS) administers three separate pension plans as described below:

1. The Traditional Pension Plan-a cost sharing, multiple-employer defined benefit pension plan.

**ADAMS COUNTY REGIONAL WATER DISTRICT
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**NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018
(Continued)**

8. PENSION BENEFITS (Continued)

2. The Member-Directed Plan-a defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20% per year). Under the Member-Directed Plan, members accumulate retirement assets equal to the value of member and (vested) employer contributions plus any investment earnings.
 3. The Combined Plan-a cost sharing, multiple-employer defined benefit pension plan. Under the Combined Plan, OPERS invests employer contributions to provide a formula retirement benefit similar in nature to, but less than, the Traditional Pension Plan benefit. Member contributions, the investment of which is self-directed by the members, accumulate retirement assets in a manner similar to the Member-Directed Plan.
- (b) OPERS provides retirement, disability, survivor and death benefits and annual cost-of living adjustments to members of the Traditional Pension and Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits.
- (c) Authority to establish and amend benefits is provided in Chapter 145 of the Ohio Revised Code.
- (d) OPERS issues a stand-alone financial report. Interested parties may obtain a copy by visiting <https://www.opers.org/investments/cafr.shtml>, by writing to OPERS, 277 East Town Street, Columbus, OH 43215-4642, or by calling 614-222-5601 or 800-222-7377.
- (e) The Ohio Revised Code provides statutory authority for member and employer contributions. For 2018, member and employer contribution rates were consistent across all three plans. While members in the state and local divisions may participate in all three plans, law enforcement and public safety officers participate in only the Traditional Pension Plan.
- (f) The 2018 member contribution rates were 10.00% of earnable salary for members in state and local classifications. Public safety and law enforcement members contributed 12.00% and 13.00% respectively.
- (g) The 2018 employer contribution rate for state and local employers was 14.00% of earnable salary. The law enforcement and public safety division, employer contribution rate was 18.10% of earnable salary.
- (h) The District contributed \$120,499 and \$118,460 (*includes \$8,461 for Health Care contributions in 2017*) to the traditional plan for 2018 and 2017 respectively.

Within the Traditional Pension Plan, OPERS classifies employees into four divisions: State, Local, Law Enforcement and Public Safety. The Public Safety and Law Enforcement divisions have different contribution rates, benefit formulas, and retirement eligibility requirements than those of the State and Local members. The member and employer contribution rates are set in statute. Both the member and employer contribution rates for Public Safety and Law Enforcement members are higher than those of the State and Local members to recognize the higher cost of these benefits. Accordingly, for the Traditional Pension Plan both member and employer contributions are used to calculate the proportionate share for employers in OPERS Schedule of Employer Allocations.

**ADAMS COUNTY REGIONAL WATER DISTRICT
ADAMS COUNTY**

**NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018
(Continued)**

8. PENSION BENEFITS (Continued)

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

At December 31, 2018, the District reported a liability of \$1,004,507 for its proportionate share of the net pension liability. The net pension liability was measured as of December 31, 2017, 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 a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating districts, actuarially determined. At December 31, 2017, the District's proportion was .006403%.

| Net Pension Liability/(Asset) | Traditional Plan |
|--|--------------------|
| Total Pension Liability | \$6,548,607 |
| Plan Fiduciary Net Position | <u>5,544,100</u> |
| Employer's Net Pension Liability/(Asset) | <u>\$1,004,507</u> |

Actuarial Methods and Assumptions: Actuarial valuations of an ongoing plan involve estimates of the value 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, 2017, using the following actuarial assumptions applied to all prior periods included in the measurement in accordance with the requirements of GASB 67.

| Key Methods and Assumptions Used in Valuation of Total Pension Liability | |
|--|---|
| Valuation Date | December 31, 2017 |
| Experience Study | 5-Yr Pd - Ended December 31, 2015 |
| Actuarial Cost Method | Individual entry age |
| Actuarial Assumptions | - |
| Investment Rate of Return | 7.50% |
| Wage Inflation | 3.25% |
| Projected Salary Increases | 3.25% - 10.75% (includes wage inflation at 3.25%) |
| Cost-of-Living Adjustments | Pre-1/7/2013 Retirees: 3.00% Simple Post-1/7/2013 Retirees: 3.00% Simple through 2018, then 2.15% Simple |

**ADAMS COUNTY REGIONAL WATER DISTRICT
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**NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018
(Continued)**

8. PENSION BENEFITS (Continued)

Pre-retirement mortality rates are based on the RP-2014 Employees mortality table for males and females, adjusted for mortality improvement back to the observation period base year of 2006. The base period for males and females was then established to be 2015 and 2010, respectively. Post-retirement mortality rates are based on the RP-2014 Healthy Annuitant mortality table for males and females, adjusted for mortality improvement back to the observation period base year of 2006. The base period for males and females was then established to be 2015 and 2010, respectively. Post-retirement mortality rates for disabled retirees are based on the RP-2014 Disabled mortality table for males and females, adjusted for mortality improvement back to the observation period base year of 2006. The base year for males and females was then established to be 2015 and 2010, respectively. Mortality rates for particular calendar year are determined by applying the MP-2015 mortality improvement scale to all of the above describe tables.

The discount rate used to measure the OPERS total pension liability was 7.5% for the Traditional Pension Plan, Combined Plan and Member-Directed Plan. 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 benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments for both the Traditional Pension Plan, Combined Plan and Member-Directed Plan was applied to all periods of projected benefit payments to determine the total pension liability.

The following table presents the District's proportionate share of the net pension liability or asset calculated using the discount rate of 7.5%, and the expected net pension liability or asset if it were calculated using a discount rate that is 1.0% lower or 1.0% higher than the current rate.

| Sensitivity of Net Pension Liability/(Asset) to Changes in the Discount Rate | | | |
|---|---------------------|----------------------------|---------------------|
| District's Proportionate Share of The Net Pension Liability/(Asset) As of December 31, 2017 | 1% Decrease 6.5% | Current Discount Rate 7.5% | 1% Increase 8.5% |
| Traditional Pension Plan | \$1,783,748 | \$1,004,507 | \$ 354,854 |

The allocation of investment assets within the Defined Benefit portfolio is approved by the OPERS Board 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 OPERS Board-approved asset allocation policy for 2017 and the long-term expected real rates of return.

| Asset Class | Target Allocation For 2017 | Weighted Average Long-Term Expected Real Rate of Return |
|------------------------|-----------------------------------|--|
| Fixed Income | 23.00% | 2.20% |
| Domestic Equities | 19.00 | 6.37 |
| Real Estate | 10.00 | 5.26 |
| Private Equity | 10.00 | 8.97 |
| International Equities | 20.00 | 7.88 |
| Other Investments | 18.00 | 5.26 |
| TOTAL | 100.00% | 5.66% |

**ADAMS COUNTY REGIONAL WATER DISTRICT
ADAMS COUNTY**

**NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018
(Continued)**

8. PENSION BENEFITS (Continued)

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 rate of return by weighting the expected future real rates of return by the target asset allocation percentage, adjusted for inflation.

During 2017, OPERS managed investments in four investment portfolios: the Defined Benefit portfolio, the Health Care portfolio, and the Defined Contribution portfolio. The Defined Benefit portfolio contains the investment assets for the Traditional Pension Plan, the defined benefit component of the Combined Plan and the annuitized accounts of the Member-Directed Plan. 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 was 16.82% for 2017.

Average Remaining Service Life: GASB 68 requires that changes arising from differences between expected and actual experience or from changes in actuarial assumptions be recognized in pension expense over the average remaining service life of all employees provided with benefits through the pension plan (active and inactive). This is to consider these differences on a pooled basis, rather than an individual basis, to reflect the expected remaining service life of the entire pool of employees with the understanding that inactive employees have no remaining service period. As of December 31, 2017, the average of the expected remaining service lives of all employees calculated by our external actuaries for the Traditional Pension Plan was 2.9546 years, for the Combined Plan was 9.216 years, and for the Member-Directed Plan was 10.1908 years. Employers should use these amounts when calculating elements of pension expense subject to amortization requirements as defined in GASB 68 and reported in the Schedule of Collective Pension Amounts.

Deferred Inflows and Deferred Outflows: As noted in OPERS Schedule of Collective Pension Amounts, the deferred inflows and outflows do not include the layer of amortization that is recognized in current year pension expense and represents the balances of deferred amounts as of December 31, 2017. The table below discloses the original amounts of the deferred inflows and outflows, calculated by OPERS external actuaries and then applying the District's proportionate share percentage, and the current year amortization on those amounts included in pension as of and for the year ended December 31, 2017. This information is included to assist with tracking the amortization tiers for each year to be recognized in future pension expense:

**ADAMS COUNTY REGIONAL WATER DISTRICT
ADAMS COUNTY**

**NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018
(Continued)**

8. PENSION BENEFITS (Continued)

| Deferred Inflows/(Outflows) | Total Deferred Inflows/(Outflows) Arising in Current Reporting Period | 2017 Amortization Period | First Year of Amortization Recognized in Pension Expense | Balance of 2017 Deferred Inflows/(Outflows) in Current Reporting Period |
|---|---|--------------------------|--|---|
| Difference Between Expected and Actual Experience | \$28,275 | 2.9546 years | \$9,570 | \$18,705 |
| Net Difference Between Projected and Actual Investment Earnings on Pension Plan Investments | \$443,078 | 5 years | \$88,616 | \$354,462 |

Amounts reported as deferred outflows of resources related to pensions resulting from employer contributions subsequent to the measurement date will be calculated by employers and recognized as a reduction of the net pension liability in the employer's financial statements, as applicable. Other cumulative amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as disclosed in the following table.

Cumulative Deferred (Outflows)/Inflows by Resources by Year to be recognized in Future Pension Expenses

| Year Ending December 31 | Traditional Pension Plan Net Deferred Inflows/(Outflows) of Resources |
|-------------------------|---|
| 2018 | (\$89,976) |
| 2019 | \$20,777 |
| 2020 | \$94,963 |
| 2021 | \$88,616 |
| 2022 | - |
| Thereafter | - |
| Total | \$114,380 |

Additional Financial and Actuarial Information: Additional information supporting the preparation of OPERS Schedules of Collective Pension Amounts and Employer Allocations (including the disclosure of the net pension liability/(asset), required supplementary information on the net pension liability/(asset), and the unmodified audit opinion on the combined financial statements) is located in OPERS 2017 CAFR. This CAFR is available at www.opers.org or by contacting OPERS at: OPERS, 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (800) 222-7377.

**ADAMS COUNTY REGIONAL WATER DISTRICT
ADAMS COUNTY**

**NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018
(Continued)**

9. POST-EMPLOYMENT BENEFITS

Statement 75 of the Governmental Accounting Standards Board (GASB), *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* – which replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans, for OPEB*. Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, establishes new accounting and financial requirements for OPEB plans.

(a) Plan Description

OPERS is a cost-sharing, multiple-employer public employee retirement system comprised of three separate pension plans: the Traditional Pension Plan, a defined benefit plan; the Combined Plan, a combination defined benefit/defined contribution plan; and the Member-Directed Plan, a defined contribution plan. All state and local governmental employees in Ohio, except those covered by one of the other state or local retirement systems in Ohio, are members of OPERS. New public employees (those who establish membership in OPERS on or after January 1, 2003) have 180 days from the commencement of employment to select membership in one of the three pension plans. Contributions to OPERS are effective with the first day of the member's employment. Contributions made prior to the member's plan selection are maintained in the Traditional Pension Plan and later transferred to the plan elected by the member, as appropriate.

As of December 2016, OPERS maintains one health care trust, the 115 Health Care Trust (115 Trust), which was established in 2014 to initially provide a funding mechanism for a health reimbursement arrangement (HRA), as the prior trust structure could not support the HRA. In March 2016, OPERS received two favorable rulings from the Internal Revenue Service (IRS) allowing OPERS to consolidate health care assets into the 115 Trust. The 401(h) Health Care Trust (401(h) Trust) was a pre-funded trust that provided health care funding for eligible members of the Traditional Pension Plan and the Combined Plan through December 31, 2015, when plans funded through the 401(h) Trust were terminated. The Voluntary Employees' Beneficiary Association Trust (VEBA Trust) accumulated funding for retiree medical accounts for participants in the Member-Directed Plan through June 30, 2016. The 401(h) Trust and the VEBA Trust were closed as of June 30, 2016, the 115 Trust, established under Internal Revenue Code (IRC) Section 115, is the funding vehicle for all health care plans.

The OPERS health care plans are reported as other post-employment benefit plans (OPEB) based on the criteria established by the Governmental Accounting Standards Board (GASB). Periodically, OPERS modifies the health care program design to improve the ongoing solvency of the plans. Eligibility requirements for access to the OPERS health care options have changed over the history of the program for Traditional Pension Plan and Combined Plan members. Prior to January 1, 2015, 10 or more years of service were required to qualify for health care coverage. Beginning January 1, 2015, generally, members must be at least age 60 with 20 years of qualifying service credit to qualify for health care coverage or 30 years of qualifying service at any age. Beginning 2016, Traditional Pension Plan and Combined Plan retirees enrolled in Medicare A and B were eligible to participate in the OPERS Medicare Connector (Connector). The Connector, vendor selected OPERS, assists eligible retirees in the selection and purchase of Medicare supplemental coverage through the Medicare market. Retirees that purchase supplemental through the Connector may receive a monthly allowance in their HRA that can be used to reimburse eligible health care expenses.

**ADAMS COUNTY REGIONAL WATER DISTRICT
ADAMS COUNTY**

**NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018
(Continued)**

9. POST-EMPLOYMENT BENEFITS (Continued)

The Ohio Revised Code permits, but does not require, OPERS to offer post-employment health care coverage. The ORC allows a portion of the employers' contributions to be used to fund health care coverage. The health care portion of the employer contribution rate for the Traditional Pension Plan and Combined Plan is comparable, as the same coverage options are provided to participants in both plans.

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

(b) Funding Policy

The OPERS funding policy provides for periodic member and employer contributions to all three plans (Traditional Pension, Combined and Member-Directed) at rates established by the Board, subject to limits set in statute. The rates established for member and employer contributions were approved based upon the recommendations of the System's external actuary. All contribution rates were within the limits authorized by the ORC.

Member and employer contribution rates, as a percent of covered payroll, were the same for each covered group across all three plans for the year ended December 31, 2017. Within the Traditional Pension Plan and Combined Plan, member and employer contributions (employer contributions only for the Combined Plan) and an actuarially determined rate of return are adequate to accumulate sufficient assets to pay defined benefit when due.

The following table displays the member and employer contribution rates as a percent of covered payroll for each division for 2017. With the assistance of the System's actuary and Board approval, a portion of each employer contribution to OPERS may be set aside for funding of post-employment health care coverage. The portion of Traditional Pension Plan and Combined Plan employer contributions allocated to health care was 1.0% for 2017. The employer contribution as a percent of covered payroll deposited for Member-Directed Plan health care accounts in 2017 was 4.0%.

| Board of Trustees – Approved Contribution Rates All Plans | | |
|--|-------|-------|
| State Division | 10.0% | 14.0% |
| Local Division | 10.0 | 14.0 |
| Law Enforcement Division | 13.0 | 18.1 |
| Public Safety Division | 12.0 | 18.1 |

The member and employer contribution rates for the State and Local divisions are currently set at the maximums authorized by the ORC of 10% and 14%, respectively. The Public Safety and Law Enforcement employer rates are also set at the maximum authorized rate of 18.1%. The member rate for Public Safety is determined by the Board and has no maximum rate established by the ORC. The member rate for Law Enforcement is also determined by the Board, but is limited by the ORC to not more than 2% greater than the Public Safety rate.

**ADAMS COUNTY REGIONAL WATER DISTRICT
ADAMS COUNTY**

**NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018
(Continued)**

9. POST-EMPLOYMENT BENEFITS (Continued)

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

At December 31, 2018, the District reported a liability of \$648,698 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of December 31, 2017 and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. The District's proportion of the net OPEB liability was based on the Employer's share of covered payroll in the OPEB plan relative to the covered payroll of all participating OPEB employers. At December 31, 2017, the District's proportion was .00597%.

| Net OPEB Liability/(Asset) | Traditional Plan |
|---------------------------------------|-------------------|
| Total OPEB Liability | \$1,413,600 |
| Plan Fiduciary Net Position | <u>764,902</u> |
| Employer's Net OPEB Liability/(Asset) | <u>\$ 648,698</u> |

Actuarial Methods and Assumptions: Actuarial valuations of an ongoing plan involve estimates of the value 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 health care costs for financial reporting purposes are based on the substantive plan and include the types of coverage provided at the time of each valuation and the historical pattern of sharing of costs between the System and plan members. The total OPEB liability was determined by an actuarial valuation as of December 31, 2016, rolled forward to the measurement date of December 31, 2017.

The actuarial valuation used the following actuarial assumptions applied to all prior periods included in the measurement in accordance with the requirements of GASB 74:

| Key Methods and Assumptions Used in Valuation of Total OPEB Liability | |
|---|---|
| Actuarial Valuation Date | December 31, 2016 |
| Rolled-Forward Measurement Date | December 31, 2017 |
| Experience Study | 5-Yr Pd - Ended December 31, 2015 |
| Actuarial Cost Method | Individual entry age |
| Actuarial Assumptions | - |
| Single Discount Rate | 3.85% |
| Investment Rate of Return | 6.50% |
| Municipal Bond Rate | 3.31% |
| Wage Inflation | 3.25% |
| Projected Salary Increases | 3.25% - 10.75% (includes wage inflation at 3.25%) |
| Health Care Cost Trend Rate | 7.5% initial, 3.25% ultimate in 2028 |

**ADAMS COUNTY REGIONAL WATER DISTRICT
ADAMS COUNTY**

**NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018
(Continued)**

9. POST-EMPLOYMENT BENEFITS (Continued)

Pre-retirement mortality rates are based on the RP-2014 Employees mortality table for males and females, adjusted for mortality improvement back to the observation period base year of 2006. The base year for males and females was then established to be 2015 and 2010, respectively. Post-retirement mortality rates are based on the RP-2014 Healthy Annuitant mortality table for males and females, adjusted for mortality improvement back to the observation period base year of 2006. The base year for males and females was then established to be 2015 and 2010, respectively. Post-retirement mortality rates for disabled retirees are based on the RP-2014 Disabled mortality table for males and females, adjusted for mortality improvement back to the observation period base year of 2006. The base year for males and females was then established to be 2015 and 2010, respectively. Mortality rates for a particular calendar year are determined by applying the MP-2015 mortality improvement scale to all of the above described tables.

A single discount rate of 3.85% was used to measure the OPEB liability on the measurement date of December 31, 2017. Projected benefit payments are required to be discounted to their actuarial present value using a single discount rate that reflects (1) a long-term expected rate of return on OPEB plan investments (to the extent that the health care fiduciary net position is projected to be sufficient to pay benefits), and (2) tax-exempt municipal bond rate based on an index of 20-year general obligation bonds with an average AA credit rating as of the measurement date (to the extent that the contributions for use with the long-term expected rate are not met). This single discount rate was based on an expected rate of return on the health care investment portfolio of 6.50% and a municipal bond rate of 3.31%. The projection of cash flows used to determine this single discount rate assumed that employer contributions will be made at rates equal to the actuarially determined contribution rate. Based on these assumptions, the health care fiduciary net position and future contributions were sufficient to finance health care costs through 2034. As a result, the long-term expected rate of return on health care investments was applied to projected costs through the year 2034, and the municipal bond rate was applied to all health care costs after that date.

The following table presents the OPEB liability calculated using the single discount rate of 3.85%, and the expected net OPEB liability if it were calculated using a discount rate that is 1.0% lower or 1.0% higher than the current rate.

| Sensitivity of Net OPEB Liability to Changes in the Discount Rate | | | |
|--|-------------------------|----------------------------------|----------------------|
| As of December 31, 2017 | 1% Decrease 2.85% | Single Discount Rate 3.85% | 1% Increase 4.85% |
| Employers' Net OPEB Liability | \$861,292 | \$648,282 | \$475,988 |

Changes in the health care cost trend rate may also have a significant impact on the net OPEB liability. The following table presents the net OPEB liability calculated using the assumed trend rates, and the expected net OPEB liability if it were calculated using a health care cost trend rate that is 1.0% lower or 1.0% higher than the current rate.

**ADAMS COUNTY REGIONAL WATER DISTRICT
ADAMS COUNTY**

**NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018
(Continued)**

9. POST-EMPLOYMENT BENEFITS (Continued)

Retiree health care valuations use a health care cost-trend assumption that changes over several years built into the assumption. The near-term rates reflect increases in the current cost of health care; the trend starting in 2018 is 7.50%. If this trend continues for future years, the projection indicates that years from now virtually all expenditures will be for health care. A more reasonable alternative is that in the not-too-distant future, the health plan cost trend will decrease to a level at, or near, wage inflation. On this basis, the actuaries project premium rate increases will continue to exceed wage inflation for approximately the next decade, but by less each year, until leveling off at an ultimate rate, assumed to be 3.25% in the most recent valuation.

| Sensitivity of Net OPEB Liability to Changes in the Health Care Cost Trend Rate | | | |
|--|-------------|--|-------------|
| As of December 31, 2017 | 1% Decrease | Current Health Care Cost Trend Rate Assumption | 1% Increase |
| Employers' Net OPEB Liability | \$620,283 | \$648,282 | \$677,237 |

The allocation of investment assets within the Health Care portfolio is approved by the Board as outlined in the annual investment plan. Assets are managed on a total return basis with a long-term objective of continuing to offer a sustainable health care program for current and future retirees. The System's primary goal is to achieve and maintain a fully funded status for benefits provided through the defined pension plans. Health care is a discretionary benefit. The table below displays the Board-approved asset allocation policy for 2017 and the long-term expected real rates of return.

| Asset Class | Target Allocation for 2017 | Weighted Average Long-Term Expected Real Rate of Return (Arithmetic) |
|------------------------|----------------------------|--|
| Fixed Income | 34.00 % | 1.88 % |
| Domestic Equities | 21.00 | 6.37 |
| REITs | 6.00 | 5.91 |
| International Equities | 22.00 | 7.88 |
| Other Investments | 17.00 | 5.39 |
| TOTAL | 100.00 % | 4.98 % |

The long-term expected rate of return on health care 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.

**ADAMS COUNTY REGIONAL WATER DISTRICT
ADAMS COUNTY**

**NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018
(Continued)**

9. POST-EMPLOYMENT BENEFITS (Continued)

During 2017, OPERS managed investments in three investment portfolios: the Defined Benefit portfolio, the Health Care portfolio and the Defined Contribution portfolio. The Health Care portfolio includes the assets for health care expenses for the Traditional Pension Plan, Combined Plan and Member-Directed Plan eligible members. Within the Health Care portfolio, contributions into the plans are assumed to be received continuously throughout the year based on the actual payroll payable at the time contributions are made, and health care-related payments are assumed to occur mid-year. 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 Health Care portfolio is 15.2% for 2017.

1. Average Remaining Service Life

GASB 75 requires that changes arising from differences between expected and actual experience or from changes in actuarial assumptions be recognized in OPEB expense over the average remaining service life of all employees provided with coverage through the health care plans (active and inactive). This is to consider these differences on a pooled basis, rather than an individual basis, to reflect the expected remaining service life of the entire pool of employees with the understanding that inactive employees have no remaining service period. As of December 31, 2017, the average of the expected remaining service lives of all employees calculated by our external actuaries was 3.0916 years. Employers should use this amount when calculating elements of OPEB expense subject to amortization requirements as defined in GASB 75 and reported in the Schedule of Collective OPEB Amounts.

2. Deferred Inflows and Deferred Outflows

As noted in the Schedule of Collective OPEB Amounts, the deferred inflows and outflows do not include the layer of amortization that is recognized in current year OPEB expense and represents the balances of cumulative deferred amounts as of December 31, 2017. The following table discloses the original amounts of the deferred inflows and outflows, calculated by OPERS external actuaries, and the current year amortization on those amounts included in OPEB expense as of and for the year ended December 31, 2017. This information is included to assist employers with tracking the amortization tiers for each year to be recognized in future OPEB expense.

**ADAMS COUNTY REGIONAL WATER DISTRICT
ADAMS COUNTY**

**NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018
(Continued)**

9. POST-EMPLOYMENT BENEFITS (Continued)

| Deferred Inflows and Outflows Arising From the Current Reporting Period As of and for the year ended December 31, 2017 | | | | |
|---|--|---------------------------------|--|--|
| Deferred Inflows/(Outflows) | Total Deferred Inflows/(Outflows) Arising in Current Reporting Period | 2017 Amortization Period | First Year of Amortization Recognized in OPEB Expense | Balance of 2017 Deferred Inflows/(Outflows) in Current Reporting Period |
| OPEB—Health Care | | | | |
| Difference Between Expected and Actual Experience | (\$746) | 3.0916 years | (\$241) | (\$505) |
| Assumption Changes | (\$69,771) | 3.0916 years | (\$22,568) | (\$47,203) |
| Net Difference Between Projected and Actual Investment Earnings on Pension Plan Investments | \$60,367 | 5 years | \$12,073 | \$48,294 |

Amounts reported as deferred outflows of resources related to OPEB resulting from employer contributions subsequent to the measurement date will be calculated by employers and recognized as a reduction of the net OPEB liability in the employer's financial statements, as applicable. Other cumulative amounts reported as deferred outflows and inflows of resources related to OPEB will be recognized in OPEB expense as disclosed in the following table:

| Cumulative Deferred Inflows/(Outflows) by Resources by Year to be recognized in Future OPEB Expenses | |
|---|---|
| Year Ending December 31 | OPEB Net Deferred Inflow/(Outflows) of Resources |
| 2018 | (\$10,736) |
| 2019 | (10,736) |
| 2020 | 9,984 |
| 2021 | 12,073 |
| 2022 | 0 |
| Thereafter | 0 |
| Total | \$585 |

3. Additional Financial and Actuarial Information

Additional information supporting the preparation of the Schedules of Collective OPEB Amounts and Employer Allocations (including the disclosure of the net OPEB liability, required supplementary information on the net OPEB liability, and the unmodified audit opinion on the combined financial statements) is located in OPERS 2017 CAFR. This CAFR is available at www.opers.org or by contacting OPERS at: OPERS, 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (800) 222-7377.

**ADAMS COUNTY REGIONAL WATER DISTRICT
ADAMS COUNTY**

**NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018
(Continued)**

10. TERMINATION BENEFITS

The District's liabilities for benefits upon termination of employment are not estimable and, therefore, have not been recognized in the financial statements.

11. CAPITAL ASSETS

The balance of capital assets at December 31, 2018 consists of the following:

| | <u>Balance</u> <u>12/31/2017</u> | <u>Additions</u> | <u>Dispositions</u> | <u>Balance</u> <u>12/31/2018</u> |
|--------------------------------------|-------------------------------------|-------------------|---------------------|-------------------------------------|
| Land and land improvements | \$ 875,186 | \$ - | \$ - | \$ 875,186 |
| Accumulated depreciation | (51,603) | (3,769) | - | (55,372) |
| Buildings | 673,120 | 15,796 | - | 688,916 |
| Accumulated depreciation | (439,247) | (26,399) | - | (465,646) |
| Wells and wellfield improvements | 1,769,726 | 3,960 | - | 1,773,686 |
| Accumulated depreciation | (1,448,789) | (47,820) | - | (1,496,609) |
| Mains, lines and meters | 29,665,814 | 595,354 | - | 30,261,168 |
| Accumulated depreciation | (21,676,220) | (1,255,336) | - | (22,931,556) |
| Storage tanks | 3,094,093 | - | - | 3,094,093 |
| Accumulated depreciation | (1,826,389) | (57,992) | - | (1,884,381) |
| Water treatment and plant equipment | 558,003 | 20,365 | (6,429) | 571,939 |
| Accumulated depreciation | (359,249) | (28,715) | 6,429 | (381,535) |
| Trucks, tractors and radio equipment | 1,301,050 | 10,064 | (25,257) | 1,285,857 |
| Accumulated depreciation | (1,021,991) | (77,340) | 21,889 | (1,077,442) |
| Office furniture and equipment | 142,584 | 32,995 | - | 175,579 |
| Accumulated depreciation | (120,810) | (6,722) | - | (127,532) |
| Construction in progress | 547,191 | 1,053,911 | (569,100) | 1,032,002 |
| Total | <u>\$ 11,682,469</u> | <u>\$ 228,352</u> | <u>\$ (572,468)</u> | <u>\$ 11,338,353</u> |

12. COMPENSATED ABSENCES

Full-time, permanent employees of the District are granted vacation benefits in varying amounts based on specified maximums depending on tenure with the District. Sick leave accrues to all employees to specified maximums. Upon termination, employees are entitled to one-half of unused sick hours up to 75 days and all accrued vacation leave. Accrued compensated absences, included in accrued expenses, as of December 31, 2018 and 2017 were \$242,006 and \$236,011 respectively.

13. ECONOMIC DEPENDENCY

Adams County Regional Water District's customer base consists of villages and individuals in Adams County, Ohio and a small portion of Brown County, Ohio.

**ADAMS COUNTY REGIONAL WATER DISTRICT
ADAMS COUNTY**

**NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018
(Continued)**

14. 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.

15. CONTINGENCIES

The District is involved in various open workers' compensation cases. The ultimate resolution of these matters is not ascertainable at this time. No provision has been made in the financial statements related to these claims.

16. ADVERTISING COSTS

The District expenses advertising costs as incurred. Advertising expenses amounted to \$2,492 and \$2,713 in 2018 and 2017 respectively.

17. GASB 75 IMPLEMENTATION

For fiscal year 2018, the District implemented GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other than Pensions, and related guidance from (GASB) Implementation Guide No. 2017-3, Accounting and Financial Reporting for Postemployment Benefits Other than Pensions (and Certain Issues Related to OPEB Plan Reporting).

GASB 75 established standards for measuring and recognizing postemployment benefit liabilities, deferred outflows of resources, deferred inflows of resources and expense/expenditure. The implementation of this pronouncement had the following effect on net position as reported December 31, 2018:

| | |
|---|----------------|
| Net Position December 31, 2018 | \$ 8,719,406 |
| <i>Adjustments:</i> | |
| Net OPEB Liability | <u>603,364</u> |
| Restated Net Position December 31, 2018 | \$ 8,116,102 |

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ADAMS COUNTY REGIONAL WATER DISTRICT
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
 OHIO PUBLIC EMPLOYEES RETIREMENT SYSTEM
 LAST TEN YEARS

| | 2018 | 2017 | 2016 | 2015 | 2014 | 2013 | 2012 | 2011 | 2010 | 2009 |
|---|--------------|--------------|--------------|------------|------------|------|------|------|------|------|
| District's Proportion of the Net Pension Liability | 0.006403% | 0.006960% | 0.006822% | 0.006785% | 0.006785% | . | . | . | . | . |
| District's Proportionate Share of the Net Pension Liability | \$ 1,004,507 | \$ 1,580,498 | \$ 1,181,656 | \$ 818,347 | \$ 799,863 | . | . | . | . | . |
| District's Covered-Employee Payroll | \$ 850,272 | \$ 846,143 | \$ 899,684 | \$ 831,824 | \$ 817,787 | . | . | . | . | . |
| District's Proportionate Share of the Net Pension Liability as a Percentage of its Covered-Employee Payroll | 118.14% | 186.79% | 131.34% | 98.38% | 97.81% | . | . | . | . | . |
| Plan Fiduciary Net Position as a Percentage of the Total Pension Liability | 84.66% | 77.25% | 81.00% | 86.45% | 86.36% | . | . | . | . | . |

Notes to Schedule

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

(2) Information prior to 2014 is not available.

See accountants' compilation report and the notes to the financial statements

**ADAMS COUNTY REGIONAL WATER DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF WATER DISTRICT PENSION CONTRIBUTIONS
OHIO PUBLIC EMPLOYEES RETIREMENT SYSTEM
LAST TEN YEARS**

| | 2018 | 2017 | 2016 | 2015 | 2014 | 2013 | 2012 | 2011 | 2010 | 2009 |
|---|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|
| Contractually required contributions | \$ 120,499 | \$ 118,460 | \$ 125,953 | \$ 118,875 | \$ 116,455 | \$ 114,490 | \$ 120,882 | \$ 120,170 | \$ 115,728 | \$ 111,077 |
| Contributions in relation to the Contractually required contributions | 120,499 | 118,460 | 125,953 | 118,875 | 116,455 | 114,490 | 120,882 | 120,170 | 115,728 | 111,077 |
| Contribution deficiency/(excess) | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| Covered-employee payroll | \$ 860,707 | \$ 846,143 | \$ 899,694 | \$ 849,109 | \$ 831,824 | \$ 817,787 | \$ 863,442 | \$ 859,357 | \$ 826,631 | \$ 793,405 |
| Contributions as a percentage of Covered-employee payroll | 14.00% | 14.00% | 14.00% | 14.00% | 14.00% | 14.00% | 14.00% | 14.00% | 14.00% | 14.00% |

Notes to Schedule

Valuation date:

The actuarial information presented is based on the System's most current actuarial valuation data as of December 31, 2017.

Methods and assumptions used to determine contribution rates:

- Actuarial cost method
- Amortization method
- Remaining amortization period
- Asset valuation method

Individual Entry Age
Level percentage of payroll contributions

21

For actuarial purposes, the Funding Value of Defined Benefit Assets recognizes assumed investment returns full each year. Differences between actual and assumed investment returns are phased in over a closed four-year period. The funding value is not permitted to deviate from market value by more than 12%.

3.75%

4.25-10.05% average, including inflation

3.0%

8.0% net of administrative expenses, including inflation

Senate Bill 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. These groups are broken down in the tables listed on pages 149-156 of the OPERS 2014 CAFR Report.

The tables used in evaluation age-and-service and survivor benefit allowances to be paid were based on the RP-2000 mortality table projected 20 years using Projection Scale AA.

*Includes postemployment contribution amounts.

See accountants' compilation report and the notes to the financial statements

ADAMS COUNTY REGIONAL WATER DISTRICT
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF DISTRICT'S PROPORTIONATE SHARE OF THE NET OPEB LIABILITY
 OHIO PUBLIC EMPLOYEES RETIREMENT SYSTEM
 LAST TEN YEARS

| | 2018 | 2017 | 2016 | 2015 | 2014 | 2013 | 2012 | 2011 | 2010 | 2009 |
|--|---------------------------|------------------|------|------|------|------|------|------|------|------|
| District's Proportion of the Net OPEB Liability | 0.005970% | - | - | - | - | - | - | - | - | - |
| District's Proportionate Share of the Net OPEB Liability | \$ 648,698 | - | - | - | - | - | - | - | - | - |
| District's Covered-Employee Payroll | \$ 850,272 ⁽¹⁾ | - ⁽²⁾ | - | - | - | - | - | - | - | - |
| District's Proportionate Share of the Net OPEB Liability as a Percentage of its Covered-Employee Payroll | 76.29% | - | - | - | - | - | - | - | - | - |
| Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability | 54.14% ⁽¹⁾ | - ⁽²⁾ | - | - | - | - | - | - | - | - |

Notes to Schedule

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

(2) Information prior to 2018 is not available.

See accountants' compilation report and the notes to the financial statements

**ADAMS COUNTY REGIONAL WATER DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF WATER DISTRICT HEALTH CARE CONTRIBUTIONS
OHIO PUBLIC EMPLOYEES RETIREMENT SYSTEM
LAST TEN YEARS**

| | 2018 | 2017 | 2016 | 2015 | 2014 | 2013 | 2012 | 2011 | 2010 | 2009 |
|--------------------------------------|------------|------------|------------|------------|------------|------------|------------|-------|-------|-------|
| Contractually required contributions | \$ 8,607 | \$ 8,461 | \$ 17,993 | \$ 16,975 | \$ 16,630 | \$ 8,175 | \$ 34,536 | \$ - | \$ - | \$ - |
| Contributions in relation to the | | | | | | | | | | |
| Contractually required contributions | 8,607 | 8,461 | 17,993 | 16,975 | 16,630 | 8,175 | 34,536 | - | - | - |
| Contribution deficiency (excess) | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| Covered-employee payroll | \$ 880,707 | \$ 846,143 | \$ 899,664 | \$ 849,109 | \$ 831,824 | \$ 817,787 | \$ 863,442 | | | |
| Contributions as a percentage of | | | | | | | | | | |
| Covered-employee payroll | 1.00% | 1.00% | 2.00% | 2.00% | 2.00% | 1.00% | 4.00% | 0.00% | 0.00% | 0.00% |

Notes to Schedule

Valuation date:

The actuarial information presented is based on the System's most current actuarial valuation data as of December 31, 2017.

Methods and assumptions used to determine contribution rates:

- Actuarial cost method
- Amortization method
- Remaining amortization period
- Asset valuation method

Individual Entry Age
Level percentage of payroll contributions
21

For actuarial purposes, the Funding Value of Defined Benefit Assets recognizes assumed investment returns fully each year. Differences between actual and assumed investment returns are phased in over a closed four-year period. The funding value is not permitted to deviate from market value by more than 12%.

- Wage inflation
- Projected salary increases
- Price inflation
- Investment rate of return
- Retirement age
- Mortality

4.25-10.05%, average, including inflation
3.75%
3.0%
8.0%, net of administrative expenses, including inflation
Senate Bill 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. These groups are broken down in the tables listed on pages 149-156 of the OPERS 2014 CAFR Report. The tables used in evaluation age-and-service and survivor benefit allowances to be paid were based on the RP-2000 mortality table projected 20 years using Projection Scale AA.

See accountants' compilation report and the notes to the financial statements.

OHIO AUDITOR OF STATE KEITH FABER



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

Adams County Regional Water District
Adams County
9203 State Route 136
West Union, Ohio 45693

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 Adams County Regional Water District, Adams County, (the District) as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated April 15, 2019, wherein we noted that the District implemented Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all internal control deficiencies that might be material weaknesses or significant deficiencies. Given these limitations, we did not identify any deficiencies in internal control that we consider material weaknesses. However, unidentified material weaknesses may exist.

Compliance and Other Matters

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

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.



Keith Faber
Auditor of State
Columbus, Ohio

April 15, 2019

OHIO AUDITOR OF STATE KEITH FABER



ADAMS COUNTY REGIONAL WATER DISTRICT

ADAMS COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
MAY 9, 2019**