



bhm cpa group, inc.
CERTIFIED PUBLIC ACCOUNTANTS

Northwest Regional Water District
Scioto County, Ohio

Regular Audit

For the Year Ended December 31, 2016 and 2015
Fiscal Year Audited Under GAGAS: 2016 and 2015



Dave Yost • Auditor of State

Board of Directors
Northwest Regional Water District
P.O. Box 156
McDermott, Ohio 45652

We have reviewed the *Independent Auditor's Report* of the Northwest Regional Water District, Scioto County, prepared by BHM CPA Group, Inc., for the audit period January 1, 2015 through December 31, 2016. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

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

Dave Yost
Auditor of State

October 11, 2017

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Northwest Regional Water District
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For the Years Ended December 31, 2016 and 2015

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Independent Auditor's Report

Board of Directors
Northwest Regional Water District
P.O. Box 156
McDermott, Ohio 45652

Report on the Financial Statements

We have audited the accompanying financial statements of the Northwest Regional Water District, Scioto County Ohio, (the District) as of and for the years ended December 31, 2016 and 2015, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Northwest Regional Water District, Scioto County, Ohio, as of December 31, 2016 and 2015 and

Board of Directors
Northwest Regional Water District
Independent Auditor's Report

the changes in its financial position and its cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require this presentation to include *Management's discussion and analysis*, and schedules of net pension liabilities and pension contributions 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.

Management has omitted the schedules of net pension liabilities and pension contributions that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economical, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated July 26, 2017, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.



BHM CPA Group, Inc.
Piketon, Ohio
July 26, 2017

NORTHWEST REGIONAL WATER DISTRICT

SCIOTO COUNTY

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) FOR THE YEARS ENDED DECEMBER 31, 2016 and 2015

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

FINANCIAL HIGHLIGHTS

The total assets and deferred outflows of resources exceeded total liabilities and deferred inflows of resources by December 31, 2016 by \$9.22 million and on December 31, 2015 by \$9.05 million. The District's net position increased by \$174 thousand (1.9%) in 2016 and by \$545 thousand (6.4%) in 2015.

The District's Operating Revenues decreased in 2016 by \$25 thousand (less than 1%) and in 2015 they increased by \$7 thousand (less than 1%). Operating and Maintenance Expenses (excluding depreciation expense) increased \$102 thousand (5.3%) in 2016 and in 2015 (excluding depreciation expense) increased \$2 thousand (less than 1%). Depreciation expense increased \$26 thousand (7.4%) in 2016 and decreased in 2015 by \$16 thousand (4.3%).

OVERVIEW OF BASIC FINANCIAL STATEMENTS

The District is a single enterprise fund using proprietary fund accounting, similar to private sector business. The Basic Financial Statements are presented using the accrual basis of accounting.

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

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

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

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**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE YEARS ENDED DECEMBER 31, 2016 and 2015**

STATEMENTS OF NET POSITION

Table 1 summarizes the Statements of Net Position of the District. Capital Assets are reported less accumulated depreciation. "Invested in Capital Assets, Net of Related Debt", are Capital Assets less accumulated depreciation and outstanding debt that was used to acquire those assets.

Table 1

	2016	2015	Change	2014*	Change
Current and Other Assets	\$ 2,582,897	\$ 2,461,783	\$ 121,114	\$ 2,154,813	\$ 306,970
Capital Assets, Net	8,415,152	8,531,969	(116,817)	8,497,435	34,534
Total Assets	10,998,049	10,993,752	4,297	10,652,248	341,504
Deferred Outflows of Resources - Pension	293,211	98,581	194,630	58,215	40,366
Long Term Liabilities:					
Other Long-Term Liabilities	1,002,773	1,179,440	(176,667)	1,492,553	(313,113)
Net Pension Liability	697,975	477,259	220,716	466,479	10,780
Other Current Liabilities	353,626	378,461	(24,835)	247,971	130,490
Total Liabilities	2,054,374	2,035,160	19,214	2,207,003	(171,843)
Deferred Outflows of Resources - Pension	14,043	8,384	5,659	-	8,384
Net Position					
Invested in Capital Assets,					
Net of Related Debt	7,235,708	7,139,704	96,004	6,902,430	237,274
Unrestricted	1,987,135	1,909,085	78,050	1,601,030	308,055
Total Net Position	\$ 9,222,843	\$ 9,048,789	\$ 174,054	\$ 8,503,460	\$ 545,329

*As Restated

The District's Net Position increased by \$174 thousand (1.9%) in 2016 and \$545 thousand (6.4%) in 2015. This increase is a result of excess revenues over expenses.

Unrestricted net position increased by \$78 thousand in 2016 and increased \$308 thousand in 2015. Unrestricted net position may be used without constraints established by bond covenants or other legal requirements. Cash and Cash equivalents increased \$79 thousand in 2016. Cash and Cash equivalents increased by \$289 thousand in 2015 which is primarily due to decreases in operating expenses

NORTHWEST REGIONAL WATER DISTRICT

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MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) FOR THE YEARS ENDED DECEMBER 31, 2016 and 2015

During 2015, the District adopted GASB Statement 68, "Accounting and Financial Reporting for Pensions—an Amendment of GASB Statement 27," which significantly revises accounting for pension costs and liabilities. For reasons discussed below, many end users of this financial statement will gain a clearer understanding of the District's actual financial condition by adding deferred inflows related to pension and the net pension liability to the reported net position and subtracting deferred outflows related to pension.

Governmental Accounting Standards Board standards are national and apply to all government financial reports prepared in accordance with generally accepted accounting principles. When accounting for pension costs, GASB 27 focused on a funding approach. This approach limited pension costs to contributions annually required by law, which may or may not be sufficient to fully fund each plan's net pension liability. GASB 68 takes an earnings approach to pension accounting; however, the nature of Ohio's statewide pension systems and state law governing those systems requires additional explanation in order to properly understand the information presented in these statements.

Under the standards required by GASB 68, the net pension liability equals the District's proportionate share of each plan's collective:

1. Present value of estimated future pension benefits attributable to active and inactive employees' past service
2. Minus plan assets available to pay these benefits

GASB notes that pension obligations, whether funded or unfunded, are part of the "employment exchange" – that is, the employee is trading his or her labor in exchange for wages, benefits, and the promise of a future pension. GASB noted that the unfunded portion of this pension promise is a present obligation of the government, part of a bargained-for benefit to the employee, and should accordingly be reported by the government as a liability since they received the benefit of the exchange. However, the District is not responsible for certain key factors affecting the balance of this liability. In Ohio, the employee shares the obligation of funding pension benefits with the employer. Both employer and employee contribution rates are capped by State statute. A change in these caps requires action of both Houses of the General Assembly and approval of the Governor. Benefit provisions are also determined by State statute. The employee enters the employment exchange with the knowledge that the employer's promise is limited not by contract but by law. The employer enters the exchange also knowing that there is a specific, legal limit to its contribution to the pension system. In Ohio, there is no legal means to enforce the unfunded liability of the pension system as against the public employer. State law operates to mitigate/lessen the moral obligation of the public employer to the employee, because all parties enter the employment exchange with notice as to the law. The pension system is responsible for the administration of the plan. Most long-term liabilities have set repayment schedules or, in the case of compensated absences (i.e. sick and vacation leave), are satisfied through paid time-off or termination payments. There is no repayment schedule for the net pension liability. As explained above, changes in pension benefits, contribution rates, and return on investments affect the balance of the net pension liability, but are outside the control of the local government. In the event that contributions, investment returns, and other changes are insufficient to keep up with required pension

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**MANAGEMENT’S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE YEARS ENDED DECEMBER 31, 2016 and 2015**

payments, State statute does not assign/identify the responsible party for the unfunded portion. Due to the unique nature of how the net pension liability is satisfied, this liability is separately identified within the long-term liability section of the statement of net position.

In accordance with GASB 68, the District’s statements prepared on an accrual basis of accounting include an annual pension expense for their proportionate share of each plan’s change in net pension liability not accounted for as deferred inflows/outflows. As a result of implementing GASB 68 and GASB 71, the District is reporting a net pension liability and deferred inflows/outflows of resources related to pension on the accrual basis of accounting. This implementation had the effect of restating net position at January 1, 2015, from \$8,911,724 to \$8,503,460.

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

	Table 2				
	2016	2015	Change	2014	Change
Operating Revenues	\$ 2,610,762	\$ 2,635,508	\$ (24,746)	\$ 2,628,135	\$ 7,373
Total Operating Revenues	2,610,762	2,635,508	(24,746)	2,628,135	7,373
Operating Expenses					
(Excluding Depreciation)	2,037,964	1,936,098	101,866	1,934,440	1,658
Depreciation Expense	380,405	354,126	26,279	370,019	(15,893)
Total Operating Expenses	2,418,369	2,290,224	128,145	2,304,459	(14,235)
Operating Income	192,393	345,284	(152,891)	323,676	21,608
Non-Operating Revenues	9,415	256,851	(247,436)	9,011	247,840
Non-Operating Expenses	27,754	56,806	(29,052)	63,474	(6,668)
Changes in Position	174,054	545,329	(371,275)	269,213	276,116
Net Position at Beginning of Year (restated in 2015)	9,048,789	8,503,460	545,329	8,642,511	(139,051)
Net Position end of Year	\$ 9,222,843	\$ 9,048,789	\$ 174,054	\$ 8,911,724	\$ 137,065

The 2014 column above has not been restated for the effects of implementing GASB 68 and GASB 71 so it will not agree with the net position in table 1.

NORTHWEST REGIONAL WATER DISTRICT

SCIOTO COUNTY

**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE YEARS ENDED DECEMBER 31, 2016 and 2015**

The information necessary to restate the 2014 beginning balances and the 2014 pension expense amounts for the effects of the initial implementation of GASB 68 is not available. Therefore, 2014 expenses still include pension expense of \$58,215 computed under GASB 27. GASB 27 required recognizing pension expense equal to the contractually required contributions to the plan. Under GASB 68, pension expense represents additional amounts earned, adjusted by deferred inflows/outflows. The contractually required contribution is no longer a component of pension expense. Under GASB 68, the 2015 statements report pension expense of \$52,107.

Consequently, in order to compare 2015 total expenses to 2014, the following adjustments are needed:

Total 2015 operating expenses under GASB 68	2,290,224
Pension expense under GASB 68	(52,107)
2015 contractually required contribution	62,699
Adjusted 2015 operating expenses	<u>2,300,816</u>
Total 2014 operating expenses under GASB 27	<u>2,304,459</u>
Decrease in operating expenses not related to pension	<u><u>(3,643)</u></u>

Operating revenues decreased \$25 thousand in 2016 and increased by \$7 thousand in 2015 due to increase in late fees and tap fees.

Operating expenses increased about \$128 thousand in 2016 primarily due to an increase in salaries and wages and pension expense.

Non-Operating revenues decreased by \$247 thousand in 2016 due to a decrease in governmental grants. Non-Operating expenses decreased by \$29 thousand in 2016 because of the decrease in long term debt.

NORTHWEST REGIONAL WATER DISTRICT

SCIOTO COUNTY

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) FOR THE YEARS ENDED DECEMBER 31, 2016 and 2015

CAPITAL ASSETS

The District had \$16.2 million invested in Capital Assets (before depreciation) at the end of 2016 and \$15.7 million at the end of 2015, an increase of \$510 thousand (3%) in 2016 and an increase of \$163 thousand (1.0%) in 2015. This increases are due to continued updates to the Water District's infrastructure.

Table 3

	<u>2016</u>	<u>2015</u>	<u>Change</u>	<u>2014</u>	<u>Change</u>
Non-Depreciable Capital Assets					
Land	\$120,754	\$120,754	\$0	\$120,754	\$0
Constructions in progress	<u>2,975</u>	<u>249,881</u>	<u>(246,907)</u>	<u>23,745</u>	<u>226,136</u>
Total Non-Depreciable Capital Assets	123,729	370,635	(246,907)	144,499	226,136
Depreciable Capital Assets					
Utility plant - lines	12,381,461	12,048,553	332,908	11,943,771	104,782
Utility plant - towers	1,649,945	1,576,155	73,790	1,576,155	0
Utility plant - meters	347,342	346,168	1,174	340,113	6,055
Utility plant - office and garage	260,119	256,613	3,506	256,613	0
Office equipment and furniture	132,857	132,857	0	132,857	0
Radio telemetry system	344,711	342,113	2,598	316,268	25,845
Trucks and equipment	<u>1,104,031</u>	<u>1,007,513</u>	<u>35,420</u>	<u>981,671</u>	<u>25,842</u>
Totals Before Accumulated Depreciation	16,220,466	15,709,972	449,396	15,547,448	162,524
Accumulated Depreciation	<u>(7,929,043)</u>	<u>(7,548,638)</u>	<u>(319,306)</u>	<u>(7,194,512)</u>	<u>(354,126)</u>
Net Depreciable Capital Assets	<u>8,291,423</u>	<u>8,161,334</u>	<u>130,090</u>	<u>8,352,936</u>	<u>(191,602)</u>
Total Capital Assets	<u><u>\$8,415,152</u></u>	<u><u>\$8,531,969</u></u>	<u><u>(\$116,817)</u></u>	<u><u>\$8,497,435</u></u>	<u><u>\$34,534</u></u>

For additional information regarding capital assets please see Note C to the Basic Financial Statements.

NORTHWEST REGIONAL WATER DISTRICT

SCIOTO COUNTY

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) FOR THE YEARS ENDED DECEMBER 31, 2016 and 2015

DEBT

At December 31, 2016 total debt outstanding of \$1,179,444 compared to \$1,392,265 at December 31, 2015. Ohio Publics Work Commission debt was issued in 2011 for water line extensions.

Table 4	2016	2015	Change	2014	Change
Ohio Public Works					
Commission (OPWC)	\$203,425	\$233,165	(\$29,740)	\$260,067	(\$26,902)
Ohio Water Development					
Authority (OWDA)	976,019	1,159,100	(183,081)	1,334,939	(175,839)
Total Long Term Debt	1,179,444	1,392,265	(212,821)	1,595,006	(202,741)
Less: Current Maturities	176,671	212,825	(36,154)	102,453	110,372
Net Total Long Term Debt	\$1,002,773	\$1,179,400	(\$176,667)	\$1,492,553	(\$313,153)

The District's debt is paid from operating revenues generated by the Water District. For additional information regarding debt please see Note D to the Basic Financial Statements.

CASH

Cash and cash equivalents were \$2,076,851 on December 31, 2016 and \$1,998,295 on December 31, 2015.

CONTACT INFORMATION

Questions regarding this report and requests for additional information should be forwarded to Patti Slye, Office Manager, Northwest Regional Water District, P.O. Box 158, McDermott, Ohio 45652 or (740) 259-2789.

**NORTHWEST REGIONAL WATER DISTRICT
SCIOTO COUNTY**

STATEMENTS OF NET POSITIONS

AS OF DECEMBER 31, 2016 AND 2015

	2016	2015
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 2,076,851	\$ 1,998,295
Accounts receivable, net allowance for doubtful accounts	484,985	443,268
Prepaid expenses	21,061	20,220
TOTAL CURRENT ASSETS	2,582,897	2,461,783
NONCURRENT ASSETS		
Capital Assets:		
Non-depreciable capital assets	123,729	370,635
Depreciable capital assets, net	8,291,423	8,161,334
TOTAL NONCURRENT ASSETS	8,415,152	8,531,969
DEFERRED OUTFLOWS OF RESOURCES		
Pension	293,211	98,581
TOTAL ASSETS and DEFERRED OUTFLOWS OF RESOURCES	\$ 11,291,260	\$ 11,092,333
	2016	2015
LIABILITIES		
CURRENT LIABILITIES		
Notes payable - current portion	\$ 176,671	\$ 212,825
Accounts Payable	52,707	58,446
Accrued Expenses	124,248	107,190
TOTAL CURRENT LIABILITIES	353,626	378,461
LONG-TERM LIABILITIES		
Net Pension Liability	697,975	477,259
Notes payable - less current portion	1,002,773	1,179,440
TOTAL LONG-TERM LIABILITIES	1,700,748	1,656,699
TOTAL LIABILITIES	2,054,374	2,035,160
DEFERRED INFLOWS OF RESOURCES		
Pension	14,043	8,384
NET POSITION		
Net Investment in Capital Assets	7,235,708	7,139,704
Unrestricted	1,987,135	1,909,085
TOTAL NET POSITION	9,222,843	9,048,789
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES and NET POSITION	\$ 11,291,260	\$ 11,092,333

See accompanying notes to the basic financial statements.

**NORTHWEST REGIONAL WATER DISTRICT
SCIOTO COUNTY**

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

For the Years Ended December 31, 2016 and 2015

	2016	2015
OPERATING REVENUES		
Water	\$ 2,467,037	\$ 2,495,209
Tap fees	23,625	28,075
Service charges	26,704	20,650
Late charges	80,126	84,369
Contract work	13,270	7,205
TOTAL OPERATING REVENUES	2,610,762	2,635,508
OPERATING EXPENSE		
Salaries, wages and benefits	837,897	716,339
Utilities	165,848	167,174
Depreciation expense	380,405	354,126
Purchased water	597,655	659,304
Telemetry	11,761	8,070
Maintenance	110,393	121,508
Truck and equipment expense	58,066	51,719
Billing expense	21,757	22,147
Pension expense	144,119	81,290
Payroll taxes	8,388	15,537
Insurance	39,285	27,651
Office supplies and postage	27,070	32,572
Legal and accounting fees	8,152	16,479
Travel and auto expense	1,347	1,337
Other expenses	6,226	14,971
TOTAL OPERATING EXPENSES	2,418,369	2,290,224
Operating Income	\$ 192,393	\$ 345,284
NONOPERATING REVENUES (EXPENSES)		
Interest Income	8,996	8,527
Intergovernmental	-	248,300
Other Income	419	24
Interest expense	(27,754)	(56,806)
Net other income (expense)	(18,339)	200,045
CHANGES IN NET POSITION	174,054	545,329
NET POSITION, BEGINNING OF YEAR (Restated)	9,048,789	8,503,460
NET POSITION, END OF YEAR	\$ 9,222,843	\$ 9,048,789

See accompanying notes to the basic financial statements.

**NORTHWEST REGIONAL WATER DISTRICT
SCIOTO COUNTY**

STATEMENTS OF CASH FLOWS

For the Years Ended December 31, 2016 and 2015

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers	\$ 2,555,775	\$ 2,610,454
Cash received from other income	13,270	7,205
Cash payments to suppliers for goods and services	(1,175,016)	(1,056,452)
Cash payments for employee services and benefits	(820,725)	(881,164)
Net cash provided by operating activities	573,304	680,043
 CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Principal payments - OPWC loans	(29,740)	(26,902)
Principal payments - OWDA loans	(183,081)	(175,838)
Interest payments - OWDA loans	(27,754)	(56,806)
Grants Received	-	248,300
Acquisition of Capital Assets	(263,588)	(388,660)
Net cash used for capital and related financing activities	(504,163)	(399,906)
 CASH FLOWS FROM INVESTING ACTIVITIES		
Interest on cash and investments	8,996	8,527
Other	419	24
	9,415	8,551
Net increase in cash and cash equivalents	78,556	288,688
Cash and cash equivalents, beginning of year	1,998,295	1,709,607
Cash and cash equivalents, end of year	\$ 2,076,851	\$ 1,998,295

See accompanying notes to the basic financial statements.

**NORTHWEST REGIONAL WATER DISTRICT
SCIOTO COUNTY**

STATEMENTS OF CASH FLOWS - Continued

For the Years Ended December 31, 2016 and 2015

	2016	2015
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 192,393	\$ 345,284
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	380,405	354,126
Changes in assets and liabilities:		
(Increase)/Decrease in accounts receivable	(41,717)	(17,849)
(Increase)/Decrease in prepaids	(841)	(433)
(Increase) in Deferred Outflows of Resources	(194,630)	(40,366)
Increase/(Decrease) in accounts payable	(5,739)	(1,514)
Increase/(Decrease) in accrued expenses	17,058	21,631
Increase/(Decrease) in Net Pension Liability	220,716	10,780
Increase/(Decrease) in Deferred Inflows of Resources	5,659	8,384
Total adjustments	380,911	334,759
Net cash provided by operating activities	\$ 573,304	\$ 680,043

See accompanying notes to the basic financial statements.

NORTHWEST REGIONAL WATER DISTRICT
SCIOTO COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2016 and 2015

NOTE A – NATURE OF ORGANIZATION

Northwest Regional Water District (hereafter referred to as NRWD or the District) was created by the Court of Common Pleas of Scioto County in August of 1966 in accordance with the provisions of Section 6119 et.seq of the Ohio Revised Code. The District operates under the direction of a twelve member board of trustees. An appointed staff consisting of an office manager and two clerks are responsible for fiscal control of the resources of the District. The District was established to provide an adequate and uncontaminated water supply for the consumption of the water district users, for industrial and business use, and for fire protection. The District serves all parts of the following political subdivisions:

Rush Township	Washington Township
Union Township	Franklin Township
Morgan Township	Jefferson Township
Rarden Village	Brushcreek Township
Otway Village	Camp Creek Township

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. Reporting Entity

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

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

Component units are legally separate organizations for which the District is financially accountable. The District is financially accountable for an organization if the District appoints a voting majority of the organization's governing board and (1) the District is able to significantly influence the programs or services performed or provided by the organization; or (2) the District is legally entitled to or can otherwise access the organization's resources; the District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the District in that the District approves the budget, the issuance of debt, or the levying of taxes. Based upon the application of these criteria, the District has no component units.

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

NORTHWEST REGIONAL WATER DISTRICT
SCIOTO COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2016 and 2015

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2. Basis of Presentation - Fund Accounting

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

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

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

3. Basis of Accounting

The accounting records are maintained on the accrual basis of accounting for financial reporting purposes. Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. Unbilled service charges receivable are recognized as revenue at year end. Expenses are recognized at the time they are incurred.

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. The proprietary fund is accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of the fund are included on the statement of net position. This measurement focus emphasizes the determination of net income.

Proprietary fund type operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in net total assets.

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

4. Budgetary Process

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

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

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

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

5. Cash and Cash Equivalents

Cash balances of the District's enterprise fund are presented as "Cash and Cash Equivalents" on the statement of net position. Interest income earned by the District totaled \$8,996 and \$8,527, respectively, for the years ended December 31, 2016 and 2015.

NORTHWEST REGIONAL WATER DISTRICT
SCIOTO COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2016 and 2015

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

During fiscal year 2016 and 2015, investments were limited to STAR Ohio, Morgan Stanley Smith Barney investment account, savings accounts and certificates of deposits. Except for nonparticipating investment contracts, investments are reported at fair value which is based on quoted market prices. Nonparticipating investment contracts such as repurchase agreements, savings accounts and non-negotiable certificates of deposit are recorded at cost.

The District has invested funds in the State Treasury Asset Reserve of Ohio (STAR Ohio) during fiscal years 2016 and 2015. STAR Ohio is an investment pool managed by the State Treasurer’s office which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio’s share price which is the price the investment could be sold for on December 31, 2016 and 2015.

The District also has invested funds with broker Morgan Stanley Smith Barney. The invested funds consist of a money fund, mutual funds and certificate of deposits.

For purposes of the statement of cash flows and for presentation on the statement of net position, investments with an initial maturity of more than three months are reported as investments.

6. Capital Assets

Capital assets acquired or constructed for the general use of the District in providing service are recorded at cost. The District has a capitalization threshold of \$1,000. Donated assets are recorded at their estimated fair market value at the time received. Depreciation of capital assets of the District is calculated utilizing the straight-line method. All assets reported in the basic financial statements are at cost less accumulated depreciation. The estimated useful lives by major capital asset class are as follows:

Lines	50 years	Office/garage building	19 years
Tanks/towers/meters	50 years	Trucks and equipment	5-10 years
Radio telemetry system	25 years	Office equipment and furniture	5-10 years

7. Compensated Absences

Compensated absences of the District consist of vacation and sick time to the extent that payment to the employees for these absences are attributable to services already rendered and are not contingent on a specific event that is outside the control of the District and its employees.

In accordance with provisions of GASB Statement No. 16, “Accounting for Compensated Absences.” a liability for vacation leave is accrued if a) the employees’ rights to payment are attributable to services already rendered; and b) it is probable that the employer will compensate the employees for the benefits through paid time off or other means, such as cash payment at termination or retirement.

Unused sick pay is recorded as a liability based on the Ohio Revised Code Section 124.38. Employees are entitled to 3.08 hours of sick leave for each completed 80 hours up to a maximum of 960 hours and are entitled to a lump sum payment of 1/2 of accumulated sick pay upon retirement or termination if they have more than ten years of service. At December 31, 2016 and 2015, the total vested liability for accumulated unpaid vacation, sick leave and compensatory time recorded was \$107,258 and \$93,096, respectively.

8. Interest Expense

Interest expense represents the interest portion on loan payments the Ohio Water Development District (OWDA).

9. Prepaid Expenses

Payments made to vendors for services that will benefit periods beyond December 31, 2016 and 2015, are recorded as prepaid items by using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expense is reported in the year in which services are provided.

NORTHWEST REGIONAL WATER DISTRICT
SCIOTO COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2016 and 2015

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

10. Accounts Receivable

Accounts receivable are reflected at their gross value reduced by the estimated amount that is expected to be uncollectible. Increases to the allowance are recorded by a provision for bad debt expense. The allowance is maintained by management at a level considered adequate to cover possible losses that are currently anticipated based on past experience, general economic conditions, information about specific account situations, and other factors and estimates which are subject to change over time.

Management considers all accounts receivable to be collected in full and may periodically allocate portions of the allowance for specific problem accounts, with the whole allowance available for any debts that occur. An account is charged off by management as a loss when deemed uncollectible, although most delinquent accounts receivable may be certified and collected as a special assessment, subject to foreclosure for nonpayment. Receivables are presented at net on the statement of net position.

11. Estimates

The preparation of the financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

12. Balance Sheet Classifications

The Water District is required to classify its balance sheet, detailing current and noncurrent assets, deferred outflows of resources, current and noncurrent liabilities and restricted and unrestricted net position, as follows:

- (1) Current: Due within one year from December 31, 2016
- (2) Noncurrent: Due after December 31, 2016
- (3) Restricted: Restricted for usage by bond and note covenants and grant restrictions
- (4) Unrestricted: Not restricted for usage

Within the Water District there only exist unrestricted net positions. Restricted net position would be used to cover eligible expenses before unrestricted net position would be used. The unrestricted net position may, upon Water District authorization, be used by the Water District for any lawful purpose.

13. Long Term Obligations

The District records fund obligations not expected to be paid within one year by available financial resources as long-term debt, which consists of OPWC notes and OWDA loans.

14. Deferred Outflows and Deferred Inflows of Resources

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

15. Net Position

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

NORTHWEST REGIONAL WATER DISTRICT
SCIOTO COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2016 and 2015

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

16. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activities of the District. These revenue consist of certain sales and fees. Operating expenses are necessary costs incurred to provide the goods or services that are the primary activity of the District. Revenues and expenses not meeting this definition are reported as non-operating.

17. Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the pension plans and additions to/deductions from their fiduciary net position have been determined on the same basis as they are reported by the pension systems. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. The pension systems report investments at fair value.

NOTE C – CAPITAL ASSETS

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

	Ending Balance at 12/31/2014	Additions	Deletions	Ending Balance at 12/31/2015
Capital Assets, Not Being Depreciated				
Land	\$120,754	\$0	\$0	\$120,754
Construction in Progress	23,745	276,505	(50,369)	249,881
Total Capital Assets, Not Being Depreciated	<u>144,499</u>	<u>276,505</u>	<u>(50,369)</u>	<u>370,635</u>
Capital Assets, Being Depreciated				
Utility plant - lines	11,943,771	104,782	0	12,048,553
Utility plant - towers	1,576,155	0	0	1,576,155
Utility plant - meters	340,113	6,055	0	346,168
Utility plant - office and garage	256,613	0	0	256,613
Office equipment and furniture	132,857	0	0	132,857
Radio telemetry system	316,268	25,845	0	342,113
Trucks and equipment	981,672	25,841	0	1,007,513
Total Capital Assets, Being Depreciated	<u>15,547,449</u>	<u>162,523</u>	<u>0</u>	<u>15,709,972</u>
Less Accumulated Depreciation:				
Utility plant - lines	(5,096,457)	(243,427)	0	(5,339,884)
Utility plant - towers	(504,949)	(31,523)	0	(536,472)
Utility plant - meters	(233,819)	(9,157)	0	(242,976)
Utility plant - office and garage	(157,812)	(14,013)	0	(171,825)
Office equipment and furniture	(93,867)	(8,644)	0	(102,511)
Radio telemetry system	(297,765)	(10,615)	0	(308,380)
Trucks and equipment	(809,843)	(36,747)	0	(846,590)
Total Accumulated Depreciation	<u>(7,194,512)</u>	<u>(354,126)</u>	<u>0</u>	<u>(7,548,638)</u>
Total Capital Assets Being Depreciated, Net	<u>8,352,937</u>	<u>(191,603)</u>	<u>0</u>	<u>8,161,334</u>
Total Capital Assets	<u>\$8,497,436</u>	<u>\$84,902</u>	<u>(\$50,369)</u>	<u>\$8,531,969</u>

**NORTHWEST REGIONAL WATER DISTRICT
SCIOTO COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2016 and 2015**

NOTE C – CAPITAL ASSETS (Continued)

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

	Ending Balance at 12/31/2015	Additions	Deletions	Ending Balance at 12/31/2016
Capital Assets, Not Being Depreciated				
Land	\$120,754	\$0	\$0	\$120,754
Construction in Progress	249,881	14,692	(261,598)	2,975
Total Capital Assets, Not Being Depreciated	<u>370,635</u>	<u>14,692</u>	<u>(261,598)</u>	<u>123,729</u>
Capital Assets, Being Depreciated				
Utility plant - lines	12,048,553	332,908	0	12,381,461
Utility plant - towers	1,576,155	73,790	0	1,649,945
Utility plant - meters	346,168	1,174	0	347,342
Utility plant - office and garage	256,613	3,506	0	260,119
Office equipment and furniture	132,857	0	0	132,857
Radio telemetry system	342,113	2,598	0	344,711
Trucks and equipment	1,007,513	96,518	0	1,104,031
Total Capital Assets, Being Depreciated	<u>15,709,972</u>	<u>510,494</u>	<u>0</u>	<u>16,220,466</u>
Less Accumulated Depreciation:				
Utility plant - lines	(5,339,884)	(247,629)	0	(5,587,513)
Utility plant - towers	(536,472)	(32,999)	0	(569,471)
Utility plant - meters	(242,976)	(9,034)	0	(252,010)
Utility plant - office and garage	(171,825)	(10,791)	0	(182,616)
Office equipment and furniture	(102,511)	(7,929)	0	(110,440)
Radio telemetry system	(308,380)	(5,667)	0	(314,047)
Trucks and equipment	(846,590)	(66,356)	0	(912,946)
Total Accumulated Depreciation	<u>(7,548,638)</u>	<u>(380,405)</u>	<u>0</u>	<u>(7,929,043)</u>
Total Capital Assets Being Depreciated, Net	<u>8,161,334</u>	<u>130,089</u>	<u>0</u>	<u>8,291,423</u>
Total Capital Assets	<u>\$8,531,969</u>	<u>\$144,781</u>	<u>(\$261,598)</u>	<u>\$8,415,152</u>

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NORTHWEST REGIONAL WATER DISTRICT
SCIOTO COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2016 and 2015

NOTE D – LONG-TERM DEBT

The District has the following notes payable at December 31, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
0% note payable OPWC, payable in semi-annual installments of \$2,171, due in 2032, secured by property and equipment	\$ 62,963	\$ 67,305
0% note payable OPWC, payable in semi-annual installments of \$10,707, due in 2022, secured by property and equipment	107,066	128,479
7.56% note payable OWDA, payable in semi-annual installments of \$14,139, including interest at 7.56%, due in 2017, secured by property and equipment	-	40,721
2% note payable OWDA, payable in semi-annual installments of \$37,050 due in 2018, secured by property and equipment	83,470	165,282
6.39% note payable OWDA, payable in semi-annual installments of \$7,516 due in 2026, secured by property and equipment	261,244	282,161
2.86% note payable OWDA, payable in semi-annual installments of \$3,532 due in 2028, secured by property and equipment	106,624	114,766
4.14% note payable OWDA, payable in semi-annual installments of \$12,568 due in 2029, secured by property and equipment	524,681	556,170
0% note payable OPWC, payable in semi-annual installments of \$922 due in 2023, secured by property and equipment	11,983	13,826
0% note payable OPWC, payable in semi-annual installments of \$705 due in 2025, secured by property and equipment	12,682	14,092
0% note payable OPWC, payable in semi-annual installments of \$368 due in 2025, secured by property and equipment	<u>8,731</u>	<u>9,463</u>
	1,179,444	1,392,265
Less current maturities	<u>(176,671)</u>	<u>(212,825)</u>
Total long-term debt	<u>\$ 1,002,773</u>	<u>\$ 1,179,440</u>

**NORTHWEST REGIONAL WATER DISTRICT
SCIOTO COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2016 and 2015**

NOTE D – LONG-TERM DEBT (Continued)

The annual requirements to amortize all bonded debt outstanding as of December 31, 2016 are as follows:

	Principal	Interest	Total
2017	176,671	30,364	207,035
2018	96,261	26,577	122,838
2019	99,479	24,328	123,807
2020	102,863	21,967	124,830
2021	277,877	52,322	330,199
2022-2026	392,781	28,950	421,731
2027-2031	33,512	239	33,751
Total	\$ 1,179,444	\$ 184,747	\$ 1,364,191

	Balance 12/31/2014*	Additions	Reductions	Balance 12/31/2015	Amount Due Within One Year
O.W.D.A.	\$1,334,938	\$0	\$175,838	\$1,159,100	\$183,081
O.P.W.C	260,067	0	26,902	233,165	29,744
Net Pension Liabilities	466,479	10,780	0	477,259	0
	<u>\$2,061,484</u>	<u>\$10,780</u>	<u>\$202,740</u>	<u>\$1,869,524</u>	<u>\$212,825</u>

	Balance 12/31/2015	Additions	Reductions	Balance 12/31/2016	Amount Due Within One Year
O.W.D.A.	\$1,159,100	\$0	\$183,081	\$976,019	\$146,927
O.P.W.C	233,165	0	29,740	203,425	29,744
Net Pension Liabilities	477,259	220,716	0	697,975	0
	<u>\$1,869,524</u>	<u>\$220,716</u>	<u>\$212,821</u>	<u>\$1,877,419</u>	<u>\$176,671</u>

*As restated – see note K

On February 18, 2016, the District was notified by the Ohio Water Development Authority (OWDA) that they have implemented an interest rate buy-down program to assist communities and local governments with outstanding OWDA loans. Any District OWDA loans with interest rates exceeding 4.00% will see a reduction of the interest ratio to 4.00%. The District will receive an estimated \$81,393 of additional interest subsidies through 2029.

NOTE E – DEPOSITS AND INVESTMENTS

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

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

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

NORTHWEST REGIONAL WATER DISTRICT
SCIOTO COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2016 and 2015

NOTE E – DEPOSITS AND INVESTMENTS (Continued)

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

1. United States treasury notes, bills, bonds, or other obligations of or securities issued by the United States treasury or any other obligation guaranteed as to the payment of principal and interest by the United States;
2. Bonds, notes, debentures, or other obligations or securities issued by any federal government agency or instrumentality, including, but not limited to, the federal national mortgage association, federal home loan bank, federal farm credit bank, federal home loan mortgage corporation, government national mortgage association, and student loan marketing association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above, provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio, its political subdivisions, or other units or agencies of this State or its political subdivisions;
5. Time certificates of deposit or savings or deposit accounts, including, but not limited to, passbook accounts;
6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
7. The State Treasurer's investment pool (STAR Ohio);
8. Commercial paper notes issued by any entity that is defined in division (D) of section 1705.01 of the Revised Code and has assets exceeding five hundred million dollars, and to which notes are rated at the time of purchase in the highest classification established by at least two standard rating services; the aggregate value of the notes does not exceed ten percent of the aggregate value of the outstanding commercial paper of the issuing corporation; the notes mature no later than two hundred seventy days after purchase; and
9. Bankers acceptances for a period not to exceed 180 days and in an amount not to exceed 10% of the District's average portfolio.

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the District, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the Treasurer or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

Cash on Hand At year end, the District has \$450 in undeposited cash on hand which is included on the statement of net position of the District as part of "cash and cash equivalents".

**NORTHWEST REGIONAL WATER DISTRICT
SCIOTO COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2016 and 2015**

NOTE E – DEPOSITS AND INVESTMENTS (Continued)

Deposits Custodial credit risk is the risk that in the event of a bank failure, the government’s deposits may not be returned to it. The District’s policy for deposits is any balance not covered by depository insurance will be collateralized by the financial institutions with pledged securities. December 31, 2016 and 2015, the carrying amount of the District’s deposits was \$1,864,941 and \$1,788,227, respectively. The bank balance of the District’s deposits at December 31, 2016 and 2015 was \$1,895,059 and \$1,815,280, respectively. Of the bank balances at December 31, 2016 and 2015, \$724,340 and \$721,246 were covered by federal depository insurance, respectively. The remaining balances are collateralized by the financial institution’s public entity deposit pool.

Investments are reported at fair value. As of December 31, 2016, the District had the following investments:

	<u>Fair Value</u>	<u>Maturity</u>
STAR Ohio	\$89,603	30 Days
Morgan Stanley	121,857	Various
Total	<u>\$211,460</u>	

As of December 31, 2015, the District had the following investments:

	<u>Fair Value</u>	<u>Maturity</u>
STAR Ohio	\$89,126	30 Days
Morgan Stanley	120,482	Various
Total	<u>\$209,608</u>	

Interest Rate Risk: Interest Rate Risk is the risk that changes in the interest rate will adversely affect the fair value on an investment. The District does not have an investment policy.

Credit Risk STAR Ohio carries a rating of AAA by Standard and Poor’s. Ohio law requires that STAR Ohio maintain the highest rating provided by at least one nationally recognized standard rating service. The District’s repurchase agreements are unrated.

Morgan Stanley Smith Barney invests in various funds such as mutual funds, money funds and certificate of deposits. Mutual funds and money funds are not insured or guaranteed by the federal government. Certificate of Deposits are insured up to \$250,000 per account owner per institution.

Concentration of Credit Risk is defined by the Governmental Accounting Standards Board as having five percent or more invested in the securities of a single issuer. The following is the District’s allocation as of December 31, 2016 and 2015:

<u>Year</u>	<u>Investment Issuer</u>	<u>Percentage of Investments</u>
2016	STAROhio	42%
2016	Morgan Stanley	58%
2015	STAROhio	43%
2015	Morgan Stanley	57%

Custodial Credit Risk: Custodial Credit Risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The District’s investment in the repurchase agreement are exposed to custodial credit risk is that they are uninsured, unregistered, and held by the counterparty’s trust department or agent but not in the District’s name.

NORTHWEST REGIONAL WATER DISTRICT
SCIOTO COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2016 and 2015

NOTE F – CONTINGENT LIABILITIES

There were no contingent liabilities as of December 31, 2016 or December 31, 2015.

NOTE G – 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; injuries to employees; and natural disasters. For fiscal year 2016, the District contracted with Kinder's Insurance Agency for real property, building contents, and vehicle insurance coverage.

The District has not had any significant reductions in insurance coverage from coverage in prior years by major category of risk. Settled claims resulting from the above risks have not exceeded commercial insurance coverage in any of the past three years.

NOTE H - ACCOUNTS RECEIVABLE

Accounts receivables are presented at net realizable value and consist of amounts due from customers for sewer fees for services rendered and contracts amounts billed. Uncollectible accounts receivable are charged to operations during the period they are determined to be uncollectible. Uncollectible accounts receivable are charged to operations during the period determined to be uncollectible. Uncollectible water account balances are certified to the County Auditor after administrative collection efforts have been exhausted. The balance at year end, including billed and unbilled accounts, are due as follows:

2016 – Accounts receivable, net allowance for doubtful accounts - \$484,985

2015 – Accounts receivable, net allowance for doubtful accounts - \$443,268

NOTE I – DEFINED BENEFIT RETIREMENT PLAN

Net Pension Liability

The net pension liability reported on the statement of net position represents a liability to employees for pensions. Pensions are a component of exchange transactions—between an employer and its employees—of salaries and benefits for employee services. Pensions are provided to an employee—on a deferred-payment basis—as part of the total compensation package offered by an employer for employee services each financial period. The obligation to sacrifice resources for pensions is a present obligation because it was created as a result of employment exchanges that already have occurred. The net pension liability represents the District's proportionate share of the pension plan's collective actuarial present value of projected benefit payments attributable to past periods of service, net of the pension plan's fiduciary net position. The net pension liability calculation is dependent on critical long-term variables, including estimated average life expectancies, earnings on investments, cost of living adjustments and others. While these estimates use the best information available, unknowable future events require adjusting this estimate annually.

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

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

**NORTHWEST REGIONAL WATER DISTRICT
SCIOTO COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2016 and 2015**

NOTE I – DEFINED BENEFIT RETIREMENT PLAN (Continued)

The proportionate share of each plan’s unfunded benefits is presented as a long-term net pension liability on the accrual basis of accounting.

Plan Description – Ohio Public Employees Retirement System (OPERS)

Plan Description - District employees participate in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans. The traditional pension plan is a cost-sharing, multiple-employer defined benefit pension plan. The member-directed plan is a defined contribution plan and the combined plan is a cost-sharing, multiple-employer defined benefit pension plan with defined contribution features. While members may elect the member-directed plan and the combined plan, substantially all employee members are in OPERS’ traditional plan; therefore, the following disclosure focuses on the traditional pension plan.

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

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

Group A	Group B	Group C
Eligible to retire prior to January 7, 2013 or five years after January 7, 2013	20 years of service credit prior to January 7, 2013 or eligible to retire ten years after January 7, 2013	Members not in other Groups and members hired on or after January 7, 2013
State and Local	State and Local	State and Local
Age and Service Requirements: Age 60 with 60 months of service credit or Age 55 with 25 years of service credit	Age and Service Requirements: Age 60 with 60 months of service credit or Age 55 with 25 years of service credit	Age and Service Requirements: Age 57 with 25 years of service credit or Age 62 with 5 years of service credit
Formula: 2.2% of FAS multiplied by years of service for the first 30 years and 2.5% for service years in excess of 30	Formula: 2.2% of FAS multiplied by years of service for the first 30 years and 2.5% for service years in excess of 30	Formula: 2.2% of FAS multiplied by years of service for the first 35 years and 2.5% for service years in excess of 35

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

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

**NORTHWEST REGIONAL WATER DISTRICT
SCIOTO COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2016 and 2015**

NOTE I – DEFINED BENEFIT RETIREMENT PLAN (Continued)

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

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

	State and Local
2016 Statutory Maximum Contribution Rates	
Employer	14.0 %
Employee	10.0 %
2016 Actual Contribution Rates	
Employer:	
Pension	12.0 %
Post-employment Health Care Benefits	2.0
Total Employer	14.0 %
Employee	10.0 %

Employer contribution rates are actuarially determined and are expressed as a percentage of covered payroll. The District's contractually required contribution to OPERS was \$79,577 in fiscal year 2016. The full amount was contributed during the year.

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

	OPERS
Proportionate Share of the Net Pension Liability-Current Year	0.004196%
Proportionate Share of the Net Pension Liability-Prior Year	0.003957%
Change in Proportionate Share	0.000239%
Proportion of the Net Pension Liability - Current Year	\$697,975
Proportion of the Net Pension Liability - Prior Year	\$477,259
Pension Expense - Current Year	\$102,122
Pension Expense - Prior Year	\$52,107

**NORTHWEST REGIONAL WATER DISTRICT
SCIOTO COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2016 and 2015**

NOTE I – DEFINED BENEFIT RETIREMENT PLAN (Continued)

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

At December 31, 2016 and December 31, 2015, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	2016 OPERS	2015 OPERS
Deferred Outflows of Resources		
Differences between expected and actual investment earnings	\$213,634	\$35,912
District contributions subsequent to the measurement date	79,577	62,669
Total	\$293,211	\$98,581
Deferred Inflows of Resources		
Differences between projected and actual economic experience	\$14,043	\$8,384
Total	\$14,043	\$8,384

\$79,577 reported as deferred outflows of resources related to pension resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending December 31, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

	OPERS
Fiscal Year Ending December 31:	
2017	\$29,185
2018	29,185
2019	66,828
2020	74,393
Total	\$199,591

Actuarial Assumptions – OPERS

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

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

Wage Inflation	3.75 percent
Future Salary Increases, including inflation	4.25 to 10.05 percent including wage inflation at 3.75%
COLA or Ad Hoc COLA	Pre January 7, 2013: 3.00% simple Post January 7, 2013: 3.00% simple through 2018, then 2.80% simple
Investment Rate of Return	8 percent
Actuarial Cost Method	Individual Entry Age

**NORTHWEST REGIONAL WATER DISTRICT
 SCIOTO COUNTY
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 December 31, 2016 and 2015**

NOTE I – DEFINED BENEFIT RETIREMENT PLAN (Continued)

Actuarial Assumptions – OPERS (continued)

Mortality rates were based on the RP-2000 Mortality Table projected 20 years using Projection Scale AA. For males, 105 percent of the combined healthy male mortality rates were used. For females, 100 percent of the combined healthy female mortality rates were used. The mortality rates used in evaluating disability allowances were based on the RP-2000 mortality table with no projections. For males, 120 percent of the disabled female mortality rates were used set forward two years. For females, 100 percent of the disabled female mortality rates were used.

The most recent experience study was completed for the five-year period ended December 31, 2010.

The long-term rate of return on defined benefit investment assets was determined using a building-block method in which best-estimate ranges of expected future real rates of return are developed for each major asset class. These ranges are combined to produce the long-term expected real rate of return by weighting the expected future real rates of return by the target asset allocation percentage, adjusted for inflation.

OPERS manages investments in four investment portfolios: the Defined Benefits portfolio, the 401 (b) Health Care portfolio, the 115 Health Care Trust portfolio and the Defined Contribution portfolio. The Defined Benefit portfolio includes the investment assets of the Traditional Pension Plan, the defined benefit component of the Combined Plan, the annuitized accounts of the Member-Directed Plan and the VEBA Trust. Within the Defined Benefit portfolio, contributions into the plans are all recorded at the same time, and benefit payments all occur on the first of the month. Accordingly, the money-weighted rate of return is considered to be the same for all plans within the portfolio. The money weighted rate of return, net of investments expense, for the Defined Benefit portfolio is 0.4 percent for 2015.

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

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

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

Discount Rate

The discount rate used to measure the total pension liability was 8.0%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and those of the contributing employers are made at the statutorily required rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

**NORTHWEST REGIONAL WATER DISTRICT
SCIOTO COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2016 and 2015**

NOTE I – DEFINED BENEFIT RETIREMENT PLAN (Continued)

Sensitivity of the District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

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

	1% Decrease █ (7.0%)	Current █ Discount Rate (8.0%)	1% Increase █ (9.0%)
District's proportionate share of the net pension liability	\$1,112,045	\$697,975	\$348,720

NOTE J – POSTEMPLOYMENT BENEFITS

Ohio Public Employees Retirement System

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

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

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

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

Disclosures for the health care plan are presented separately in the OPERS financial report. Interested parties may obtain a copy by visiting <https://www.opers.org/financial/reports.shtml>, by writing to OPERS, 277 East Town Street, Columbus, OH 43215-4642, or by calling (614)222-5601 or 800-222-7377.

Funding Policy – The Ohio Revised Code provides the statutory authority requiring public employers to fund post-employment health care through their contributions to OPERS. A portion of each employer's contribution to OPERS is set aside to fund OPERS health care plans.

Employer contribution rates are expressed as a percentage of the earnable salary of active members. In 2016, state and local employers contributed at a rate of 14.0 percent of earnable salary and public safety and law enforcement employers contributed at 18.1 percent. These are the maximum employer contribution rates permitted by the Ohio Revised Code. Active member contributions do not fund health care.

**NORTHWEST REGIONAL WATER DISTRICT
 SCIOTO COUNTY
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 December 31, 2016 and 2015**

NOTE J - POSTEMPLOYMENT BENEFITS - Continued

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

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

Substantially all of the District’s contribution allocated to fund post-employment health care benefits relates to the cost-sharing, multiple employer trusts. The corresponding contribution for the years ended December 31, 2016, 2015, and 2014 was \$16,758, \$14,327, and \$9,903, respectively. The full amount has been contributed for 2016, 2015 and 2014.

NOTE K – CHANGES IN ACCOUNTING PRINCIPLES AND RESTATEMENT OF NET POSITION

For fiscal year 2015, the District has implemented Governmental Accounting Standards Board (*GASB*) *Statement No.68. “Accounting and Financial Reporting for Pensions” and GASB Statement No. 71, Pension Transition for Contribution Made Subsequent to the Measurement Date – an amendment of GASB Statement no. 68.*” GASB 68 established standards for measuring and recognizing pension liabilities, deferred outflows of resources, deferred inflows of resources and expenses/expenditures. The implementation of this pronouncement had the following effect on net pension as reported December 31, 2014:

GASB Statement Nos. 68 & 71	
Adjustment	
to Net Position:	
Net Pension Liability	\$(466,479)
Deferred Outflow - Payments subsequent	
to Measurement Date	58,215
Total Prior Period Adjustment	\$(408,264)

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

NORTHWEST REGIONAL WATER DISTRICT
SCIOTO COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2016 and 2015

NOTE K – CHANGES IN ACCOUNTING PRINCIPLES AND RESTATEMENT OF NET POSITION
(Continued)

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

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

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

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

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

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

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**Independent Auditor's Report on Internal Control Over Financial Reporting and
on Compliance and Other Matters Required by *Government Auditing Standards***

Board of Directors
Northwest Regional Water District
P.O. Box 156
McDermott, Ohio 45652

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 Northwest Regional Water District, Scioto County, (the District), as of and for the years ended December 31, 2016 and 2015, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated July 26, 2017, wherein we noted the District adopted Governmental Accounting Standard (GASB) No. 68 *Accounting and Financial Reporting for Pensions – an amendment to GASB Statement No. 27* and also GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*.

Internal Control over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all internal control deficiencies that might be material weaknesses or significant deficiencies. Therefore, unidentified material weaknesses or significant deficiencies may exist. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings that we consider a material weakness. We consider finding 2016-001 to be a material weakness.

Compliance and Other Matters

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

District's Response to Finding

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

Purpose of this Report

This report only describes the scope of our internal control and compliance testing and our testing results, and does not opine on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

BHM CPA Group

BHM CPA Group, Inc.
Piketon, Ohio
July 26, 2017

**NORTHWEST REGIONAL WATER DISTRICT
SCIOTO COUNTY
DECEMBER 31, 2016 AND 2015
SCHEDULE OF FINDINGS**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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FINDING NUMBER 2016-001

Material Weakness – Financial Reporting

Errors were identified within various financial statement amounts and footnote disclosures. Some errors were considered significant enough to warrant correction in order to properly present amounts and disclosures. Other errors were considered less significant and correction was waived. Furthermore, the District omitted the schedules of net pension liabilities and pension contributions that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements.

Misstatements appear to be due to errors in computations and presentations performed by the District's outside consultant, which is used for compiling the annual financial report. The District should implement monitoring procedures over work performed by its consultant to ensure financial reports are fairly stated. A monitoring system by the District should be in place to prevent or detect misstatements for the accurate presentation of the District's financial statements.

District's Response: The District will consider the Auditor's recommendation.

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Dave Yost • Auditor of State

NORTHWEST REGIONAL WATER DISTRICT

SCIOTO COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
OCTOBER 24, 2017**