BUCKEYE WATER DISTRICT

COLUMBIANA COUNTY, OHIO

AUDIT REPORT

For the Year Ended December 31, 2017

Charles E. Harris
& Associates, Inc.
CPAs and Government Consultants

Dave Yost • Auditor of State

Board of Directors
Buckeye Water District
1925 Clark Avenue
Wellsville, OH 43968

We have reviewed the *Independent Auditor's Report* of the Buckeye Water District, Columbiana County, prepared by Charles E. Harris & Associates, Inc., for the audit period January 1, 2017 through December 31, 2017. 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 Buckeye Water District is responsible for compliance with these laws and regulations.

Dave Yost
Auditor of State

October 24, 2018

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BUCKEYE WATER DISTRICT
COLUMBIANA COUNTY
AUDIT REPORT
For the Year Ending December 31, 2017

TABLE OF CONTENTS

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INDEPENDENT AUDITOR'S REPORT

Buckeye Water District
Columbiana County
1925 Clark Avenue
P.O. Box 105
Wellsville, Ohio 43968

To the Board of Trustees:

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of the Buckeye Water District, Columbiana County, Ohio (the District), as of and for the year ended December 31, 2017, 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 the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers 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 for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the Buckeye Water District, Columbiana County, Ohio, as of December 31, 2017, and the changes in financial position and cash flows thereof for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, and schedules of net pension liabilities and pension contributions listed in the table of contents, be presented to supplement the basic financial statements. Such 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 financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated August 16, 2018, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control 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 and compliance.

Charles E. Harris & Associates

Charles E. Harris & Associates, Inc.
August 16, 2018

This discussion and analysis of the Buckeye Water District's (the District) financial performance provides an overall review of the District's financial activities for the year ended December 31, 2017. Readers should also review the basic financial statements and notes to enhance their understanding of the District's financial performance.

Overview of the Financial Statements

The District's financial statements are prepared on the accrual basis in accordance with generally accepted accounting principles promulgated by the Governmental Accounting Standard Board (GASB). The financial information of the District is accounted for in a single enterprise fund with revenues recognized when earned, not when received. Expenses are recognized when incurred, not when they are paid. Capital assets greater than or equal to $5,000 for all items are capitalized and are depreciated over their useful lives. See the notes to the financial statements for a summary of the District's significant accounting policies.

Following this management's discussion and analysis are the basic financial statements of the District together with the notes, which are essential to a full understanding of the data contained in the financial statements. Included in the financial statements for the District are the following:

- Statement of Net Position – This statement presents information on all of the District's assets and deferred outflows of resources and all of the District's liabilities and deferred inflows of resources, with the difference between the two reported as net position.

- Statement of Revenues, Expenses and Changes in Net Position – This statement includes all operating and nonoperating revenues and expenses for the District and shows the change in the District's net position during the most recent year.

- Statement of Cash Flows – This statement reports cash and cash equivalent activities for the year resulting from operating, capital and investing activities. A reconciliation of operating income with cash provided from operations is included.

Financial Highlights

The District's financial position decreased from 2016 to 2017, as indicated by the decrease in total net position of $1,540,990. The decrease can be mainly attributed to expenses exceeding revenues for the current year and a decrease in charges for services.

As of December 31, 2017, the District has received $2,793,890 of a $3,100,000 USDA loan issued for the purpose of paying off the Village of the Salineville debt that the District had been paying on, as well as the promissory note with Columbiana County. As of December 31, 2017, the District has paid off the Village debt and the promissory note.

Financial Position

Table 1 focuses on the District's financial position and the results of operations for 2017 compared to 2016:

Table 1
Net Position

	2017	2016
Assets		
Current and other assets	$ 2,140,423	$ 3,559,940
Capital assets, net of depreciation	21,672,962	23,439,489
Total assets	23,813,385	26,999,429
Deferred outflows of resources		
Pension	571,716	463,656
Liabilities		
Current and other liabilities	399,928	411,060
Long-term liabilities:		
Due within one year	1,037,539	989,474
Net pension liability	1,426,535	1,071,667
Other amounts due in more than one year	24,895,797	26,812,375
Total liabilities	27,759,799	29,284,576
Deferred intflows of resources		
Pension	8,490	20,707
Net Position		
Net investment in capital assets	(2,694,659)	(1,387,605)
Restricted for debt service	420,000	420,000
Unrestricted	(1,108,529)	(874,593)
Total net position	$ (3,383,188)	$ (1,842,198)

The net pension liability is reported pursuant to GASB Statement No. 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 as follows, many end users of this financial statement will gain a clearer understanding of the District's actual financial condition by adding deferred inflows related to pension and the net pension liability to the reported net position and subtracting deferred outflows related to pension.

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

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

1. Present value of estimated future pension benefits attributable to active and inactive employees' past service.

2. Minus plan assets available to pay these benefits.

GASB notes that pension obligations, whether funded or unfunded, are part of the "employment exchange" – that is, the employee is trading his or her labor in exchange for wages, benefits, and the promise of a future pension. GASB noted that the unfunded portion of this pension promise is a present obligation of the government, part of a bargained-for benefit to the employee, and should accordingly be reported by the government as a liability since they received the benefit of the exchange. However, the District is not responsible for certain key factors affecting the balance of this liability. In Ohio, the employee shares the obligation of funding pension benefits with the employer. Both employer and employee contribution rates are capped by State statute. A change in these caps requires action of both Houses of the General Assembly and approval of the Governor. Benefit provisions are also determined by State statute. The employee enters the employment exchange with the knowledge that the employer's promise is limited not by contract but by law. The employer enters the exchange also knowing that there is a specific, legal limit to its contribution to the pension system. In Ohio, there is no legal means to enforce the unfunded liability of the pension system *as against the public employer.* State law operates to mitigate/lessen the moral obligation of the public employer to the employee, because all parties enter the employment exchange with notice as to the law. The pension system is responsible for the administration of the plan.

Most long-term liabilities have set repayment schedules or, in the case of compensated absences (i.e. sick and vacation leave), are satisfied through paid time-off or termination payments. There is no repayment schedule for the net pension liability. As explained above, changes in pension benefits, contribution rates, and return on investments affect the balance of the net pension liability, but are outside the control of the local government. In the event that contributions, investment returns, and other changes are insufficient to keep up with required pension payments, State statute does not assign/identify the responsible party for the unfunded portion. Due to the unique nature of how the net pension liability is satisfied, this liability is separately identified within the long-term liability section of the statement of net position.

In accordance with GASB 68, the District's statements prepared on an accrual basis of accounting include an annual pension expense for their proportionate share of each plan's *change* in net pension liability not accounted for as deferred inflows/outflows.

Current assets decreased from 2016 due to a significant decrease in equity in pooled cash and cash equivalents. The decrease in equity in pooled cash and cash equivalents primarily resulted from the payoff of the promissory note during the 2017.

A portion of the District's net position reflects investments in capital assets (e.g. land, buildings, improvements, equipment, vehicles and infrastructure), less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to its customers; consequently, these assets are not available for future spending. Capital assets decreased from 2017 due to current year depreciation exceeding capital asset additions.

Long-term liabilities decreased during 2017 due to the payoff of the promissory note as mentioned above.

Table 2 shows the change in net position for the year ended December 31, 2017, compared to 2016.

Table 2
Change in Net Position

	2017	2016
Revenues		
Operating revenues	$ 3,750,116	$ 4,756,222
Nonoperating revenues	53,239	653,125
Total revenues	3,803,355	5,409,347
Expenses		
Operating expenses	4,523,873	5,600,400
Interest and fiscal charges	820,472	818,747
Total expenses	5,344,345	6,419,147
Change in net position	(1,540,990)	(1,009,800)
Net position at beginning of year	(1,842,198)	(832,398)
Net position at end of year	$ (3,383,188)	$ (1,842,198)

Operating revenues decreased from 2016 due to decreases in charges for services and other revenues.

Nonoperating revenues decreased from 2016 mainly due to capital contributions for the Salineville water system transferred during 2016.

The decrease in operating expenses from 2016 is due to the District paying off the debt of the Salineville water system during 2016.

The District's expenses exceeded its revenues by $1,540,990 for 2017.

Capital Assets and Debt Administration

Capital Assets

Table 3 shows 2017 balances compared to 2016.

Table 3
Capital Assets, at Year End
(Net of Depreciation)

	2017	2016
Land	$ 487,620	$ 487,620
Construction in progress	443,812	344,507
Buildings and improvements	12,052,137	12,430,509
Equipment and machinery	1,229,562	2,118,385
Vehicles	63,931	91,782
Water tank	204,992	291,519
Infrastructure		
Water lines	7,190,908	7,675,167
Total capital assets	$ 21,672,962	$ 23,439,489

All capital assets are reported net of depreciation. The decrease was due to an additional year of depreciation being taken. The District has been very aggressive in pursuing funding to assist in the financing of infrastructure projects. See Note 4 to the basic financial statements for additional information on the District's capital assets.

Debt

Table 4 summarizes the District's debt outstanding.

Table 4
Outstanding Debt, at Year End

	2017	2016
OPWC loans	$ 1,040,699	$ 874,181
OWDA loans	8,300,859	8,873,495
Revenue bonds	16,349,590	16,256,653
Promissory note	-	1,500,000
Totals	$ 25,691,148	$ 27,504,329

The District continues to monitor its outstanding debt. See Note 5 to the basic financial statements for additional information on the District's long-term obligations.

Current Issues

In conclusion, the Buckeye Water District is in a period posing both significant challenges and opportunities. Management is committed to working with all stakeholders to craft solutions that will most effectively use the available resources to continue to provide excellent water to the customers of the District.

Contacting the District's Management

This financial report is designed to provide our citizens and creditors with a general overview of the District's finances and to demonstrate accountability for the money it receives. If you have any questions about this report or need additional financial information, contact Tiffany Chetock, Fiscal Officer, at Buckeye Water District, 1925 Clark Avenue, P.O. Box 105, Wellsville, Ohio 43968 or email at tchetock@buckeyewater.com.

Buckeye Water District

Statement of Fund Net Position

December 31, 2017

Assets		
Current assets:		
Equity in pooled cash and cash equivalents	$	1,043,201
Cash and cash equivalents:		
In segregated accounts		32,997
Receivables		479,836
Materials and supplies inventory		102,360
Prepaid items		62,029
Total current assets		1,720,423
Noncurrent assets:		
Restricted assets:		
Equity in pooled cash and cash equivalents		420,000
Capital assets:		
Nondepreciable capital assets		931,432
Depreciable capital assets, net		20,741,530
Total noncurrent assets		22,092,962
Total assets		23,813,385
Deferred outflows of resources		
Pension		571,716
Liabilities		
Current liabilities:		
Accounts payable		83,222
Accrued wages		15,082
Intergovernmental payable		8,270
Deposits held and due to others		32,997
Accrued interest payable		260,357
Compensated absences payable		95,312
OPWC loans payable		80,327
OWDA loans payable		583,800
Revenue bonds payable		278,100
Total current liabilities		1,437,467
Long-term liabilities:		
Compensated absences payable		146,876
OPWC loans payable, net of current portion		960,372
OWDA loans payable, net of current portion		7,717,059
Revenue bonds payable, net of current portion		16,071,490
Net pension liability		1,426,535
Total long-term liabilities		26,322,332
Total liabilities		27,759,799
Deferred inflows of resources		
Pension		8,490
Net position		
Net investment in capital assets		(2,694,659)
Restricted for:		
Debt service		420,000
Unrestricted		(1,108,529)
Total net position	$	(3,383,188)

See accompanying notes to the basic financial statements.

Buckeye Water District

Statement of Revenues, Expenses and Changes in Fund Net Position

For the Year Ended December 31, 2017

Operating revenues		
Charges for services	$	3,579,856
Tap-in fees		111,395
Other		58,865
Total operating revenues		3,750,116
Operating expenses		
Salaries and wages		823,221
Fringe benefits		553,096
Contractual services		736,783
Materials and supplies		179,205
Other operating expenses		1,170
Depreciation		2,230,398
Total operating expenses		4,523,873
Operating loss		(773,757)
Nonoperating revenues (expenses)		
Intergovernmental		47,932
Interest		5,307
Loss on sale of capital assets		(4,536)
Interest and fiscal charges		(815,936)
Total nonoperating revenues (expenses)		(767,233)
Change in net position		(1,540,990)
Net position at beginning of year		(1,842,198)
Net position at end of year	$	(3,383,188)

See accompanying notes to the basic financial statements.

Buckeye Water District

Statement of Cash Flows

For the Year Ended December 31, 2017

Cash flows from operating activities:		
Cash received from customers	$	3,988,056
Other cash receipts		58,865
Cash payments for employee services and benefits		(1,196,020)
Cash payments to suppliers for goods and services		(980,036)
Other cash payments		(1,170)
Deposits received		32,997
Net cash provided by operating activities		1,902,692
Cash flows from noncapital financing activities:		
Interest payment - promissory note		(11,182)
Principal payment - promissory note		(1,500,000)
Net cash used for noncapital financing activities		(1,511,182)
Cash flows from capital and related financing activities:		
Loans issued		607,782
Cash payments from subsidy		47,932
Principal payment on OPWC loans		(80,327)
Principal payment on OWDA loans		(572,636)
Principal payment on revenue bonds		(268,000)
Interest payment on OWDA loans		(167,578)
Interest payment revenue bonds		(654,145)
Acquisition of capital assets		(468,407)
Net cash used for capital and related financing activities		(1,555,379)
Cash flows from investing activities:		
Investment income		5,307
Net cash provided by investing activities		5,307
Net decrease in cash and cash equivalents		(1,158,562)
Cash and cash equivalents at beginning of year		2,654,760
Cash and cash equivalents at end of year	$	1,496,198
Reconciliation of operating loss to net cash provided by operating activities:		
Operating loss	$	(773,757)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation		2,230,398
Change in assets and liabilities:		
(Increase) decrease in assets:		
Accounts receivable		296,805
Materials and supplies inventory		(8,806)
Prepaid items		(27,044)
Increase in deferred outflows of resources - pension		(108,060)
Increase (decrease) in liabilities:		
Accounts payable		48,478
Contracts payable		(6,588)
Refundable deposits		32,997
Accrued wages		(1,000)
Compensated absences payable		(55,332)
Intergovernmental payable		(68,050)
Net pension liability		354,868
Decrease in deferred inflows of resources - pension		(12,217)
Net cash provided by operating activities	$	1,902,692

See accompanying notes to the basic financial statements.

Note 1 – Description of the Entity

The Buckeye Water District, Columbiana County, Ohio, (the District) is a body corporate and politic established to exercise the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The District was formed in 1996 pursuant to Chapter 6119 of the Ohio Revised Code. The District is directed by a 9-member Board of Directors comprised of three members appointed by the Columbiana County Board of Commissioners, three members appointed by the Township Trustees of the townships which comprise part of the District and three members are appointed by the Mayor or Village Council of the Village of Wellsville. Subdivisions within the District are: the Village of Wellsville, Madison, Yellow Creek, Salem, and Middletown Townships and the unincorporated portions of Saint Clair and Liverpool Townships. The District provides water services to residents of the District.

In accordance with the Statements of the Governmental Accounting Standards Board, including GASB No. 14 "The Financial Reporting Entity" as amended by GASB No. 61 "The Financial Reporting Entity: Omnibus an amendment of GASB Statements No. 14 and No. 34", the accompanying financial statements include all funds and activities over which the District is financially accountable.

Note 2 – Summary of Significant Accounting Policies

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

Basis of Presentation

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

The District uses enterprise accounting to maintain its financial records during the year. Enterprise accounting focuses on the determination of operating income, change in net position, financial position, and cash flows. Enterprise accounting may be used to account for any activity for which a fee is charged to external users for goods or services.

The District uses fund accounting to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The operations of the District are reported as a single enterprise fund.

Measurement Focus

The enterprise fund is accounted for on a flow of economic resources measurement focus. All assets and deferred outflows of resources and all liabilities and deferred inflows of resources associated with the operation of the District are included on the statement of net position. The statement of changes in net position presents increases (i.e., revenues) and decreases (i.e., expenses) in total net position. The statement of cash flows provides information about how the District finances and meets the cash flow needs of its enterprise activity.

Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. The District's financial statements are prepared using the accrual basis of accounting. On the accrual basis, revenue is recorded on exchange transactions when the exchange takes place. Nonexchange transactions, in which the District receives value without directly giving equal value in return, include capital contributions. Expenses are recognized at the time they are incurred.

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

In addition to liabilities, the statement of net position reports a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized until that time. For the District, deferred inflows of resources include pension. Deferred inflows of resources related to pension are reported on the statement of net position (See Note 6).

Cash and Cash Equivalents

To improve cash management, cash received by the District is pooled and invested. Individual fund integrity is maintained through District records. Interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents".

The District has a segregated bank account for monies held separate from the District's central bank account and are presented on the statement of net position as "cash and cash equivalents in segregated accounts".

Investments of the cash management pool and investments with an original maturity of three months or less at the time of purchase are presented on the financial statements as cash equivalents. Investments with an initial maturity of more than three months that were no purchased from the pool are reported as investments.

Investments are reported as assets. Accordingly, purchases of investments are not recorded as disbursements, and sales of investments are not recorded as receipts. Gains or losses at the time of sale are recorded as receipts or negative receipts (contra revenue), respectively.

The District had no investments in 2017.

Materials and Supplies Inventory

Inventories are presented at cost on a first-in, first-out basis and are expended/expensed when used. Inventory consists of expendable supplies held for consumption.

Prepaid Items

Payments made to vendors for services that will benefit periods beyond December 31, 2017, are recorded as prepaid items by recording a current asset for the prepaid amount and reflecting the expense in the year in which services are consumed.

Restricted Assets

Assets are reported as restricted when limitations on their use change in nature or normal understanding of the availability of the asset. Such constraints are either externally imposed by creditors, contributors, grantors, or laws of other governments or imposed by law through constitutional provisions. Restricted assets represent amounts set aside to satisfy bond indenture requirements for current and future debt payments.

Capital Assets

All capital assets are capitalized at cost and updated for additions and retirements during the year. Donated capital assets are recorded at the acquisition values as of the date received. The capitalization threshold is $5,000. The District's infrastructure consists of waterlines and includes infrastructure acquired by the District since 1996. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

All reported capital assets, except for land, are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

Description	Estimated Lives
Buildings and improvements	25 - 40 years
Equipment and machinery	5-10 years
Vehicles	5 years
Water tank	15 years
Infrastructure	25 - 40 years

Compensated Absences

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the District will compensate the employees for the benefits through paid time off or some other means. The District records a liability for all accumulated unused vacation time when earned for all employees.

Sick leave benefits are accrued as a liability using the vesting method. The liability includes the employees who are currently eligible to receive termination benefits and those that the District has identified as probable of receiving payment in the future (those employees who will be eligible to receive termination payments in the next twenty years). The amount is based on accumulated sick leave and employee wage rates at year end taking into consideration any limits specified in the District's termination policy.

Pensions

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

Net Position

Net position represents the difference between all other elements in a statement of financial position. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. Net position is reported as restricted when there are limitations imposed on its use through external restrictions imposed by creditors, grantors or laws or regulations of other governments. The District applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position are available.

Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary fund. For the District, these revenues are for consumer water consumption. Operating expenses are necessary costs incurred to provide the goods or services that are the primary activity of the District. All revenues and expenses not meeting these definitions are reported as non-operating.

Estimates

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

Note 3 – Deposits and Investments

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

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

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any obligation guaranteed as to principal or interest by the United States;

2. Bonds, notes, debenture, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, and Government National Mortgage Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;

3. No-load money market mutual funds consisting exclusively of obligations described in (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;

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

5. Bonds and other obligations of the State of Ohio, and with certain limitations, bonds and other obligations of political subdivisions of the State of Ohio;

6. The State Treasury Asset Reserve of Ohio (STAR Ohio);

7. Certain bankers' acceptances and commercial paper notes for a period not to exceed 180 days in an amount not to exceed 40 percent of the interim monies available for investment at any one time; and

8. Written repurchase agreements in the securities described in the securities described in (1) or (2) provided 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 the term of the agreement must not exceed thirty days.

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

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

Custodial Credit Risk *Custodial Credit Risk* is the risk that in the event of bank failure, the government's deposits may not be returned to it. Protection of the District's cash and deposits is provided by the Federal Deposit Insurance Corporation as well as qualified securities pledged by the institution holding the assets. By law, financial institutions must collateralize all public deposits. The face value of the pooled collateral must equal at least 105% of public funds deposited that are not covered by FDIC. Collateral is held in the District's name by trustees including the Federal Reserve Bank and designated third parties of the financial institution. The District has no deposit policy for custodial credit risk beyond the requirements of State statute.

At year-end, the carrying amount of the District's deposits was $1,496,198 and the bank balance was $1,564,552. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", none of the District's bank balance was exposed to custodial risk as described above.

Note 4 – Capital Assets

Capital asset activity for the fiscal year ended December 31, 2017, was as follows:

	Balance 12/31/2016	Increases	Decreases	Balance 12/31/2017
Capital assets, not being depreciated:				
Land	$ 487,620	$ -	$ -	$ 487,620
Construction in progress	344,507	460,242	(360,937)	443,812
Total capital assets, not being depreciated	832,127	460,242	(360,937)	931,432
Capital assets, being depreciated:				
Buildings and improvements	18,629,780	360,937	-	18,990,717
Equipment and machinery	9,586,897	8,165	(40,398)	9,554,664
Vehicles	617,502	-	-	617,502
Water tank	1,297,897	-	-	1,297,897
Infrastructure				
Waterlines	12,197,611	-	-	12,197,611
Total capital assets, being depreciated	42,329,687	369,102	(40,398)	42,658,391
Less accumulated depreciation:				
Buildings and improvements	(6,199,271)	(739,309)	-	(6,938,580)
Equipment and machinery	(7,468,512)	(892,452)	35,862	(8,325,102)
Vehicles	(525,720)	(27,851)	-	(553,571)
Water tank	(1,006,378)	(86,527)	-	(1,092,905)
Infrastructure				
Waterlines	(4,522,444)	(484,259)	-	(5,006,703)
Total accumulated depreciation	(19,722,325)	(2,230,398)	35,862	(21,916,861)
Total capital assets being depreciated, net	22,607,362	(1,861,296)	(4,536)	20,741,530
Total capital assets, net	$ 23,439,489	$ (1,401,054)	$ (365,473)	$ 21,672,962

Note 5 – Long-Term Obligations

The original issue date, maturity date, interest rate and original issuance amount for each of the District's bonds and loans follow:

	Issue Date	Maturity Date	Interest Rate	Orginial Issue Amount
Ohio Public Works Commission Loans				
Wellsville water treatment plant improvements	2003	2023	0.000%	$ 268,028
State route 39	2003	2026	0.000%	783,000
District water meter replacement	2014	2030	0.000%	416,646
Hibbets Mill road waterline replacement	2017		0.000%	Not finalized
Ohio Water Development Authority Loans				
Transmission main, pump station and intake	2006	2029	2.000%	Not finalized
Salineville waterline extension	2009	2040	0.000%	662,137
Revenue Bonds				
2002 Series	2002	2042	4.500%	1,498,000
2008 Series	2008	2048	4.500%	13,800,000
2016 Series	2016	2056	1.375%	3,100,000
Promissory Note				
Columbiana County	2013	2018	1.375%	1,500,000

Changes in long-term obligations during the year ended December 31, 2017, consisted of the following:

	Balance 12/31/16	Increases	Decreases	Balance 12/31/17	Amount Due in One Year
Ohio Public Works Commission Loans:					
Wellsville water treatment plant improvements	$ 93,811	$ -	$ (13,401)	$ 80,410	$ 13,401
State Route 39 water main feeder	391,500	-	(39,150)	352,350	39,150
District water meter replacement	388,870	-	(27,776)	361,094	27,776
Hibbets Mill road waterline replacement	-	246,845	-	246,845	-
Total Ohio Public Works Commission Loans	874,181	246,845	(80,327)	1,040,699	80,327
Ohio Water Development Authority Loans:					
Transmission main, pump station and intake	8,469,506	-	(555,445)	7,914,061	566,609
Salineville waterline extension	403,989	-	(17,191)	386,798	17,191
Total Ohio Water Development Authority Loans	8,873,495	-	(572,636)	8,300,859	583,800
Revenue Bonds:					
2002 Series	1,233,100	-	(26,000)	1,207,100	27,000
2008 Series	12,590,600	-	(183,400)	12,407,200	191,600
2016 Series	2,432,953	360,937	(58,600)	2,735,290	59,500
Total Revenue Bonds	16,256,653	360,937	(268,000)	16,349,590	278,100
Other long-term obligations					
Promissory note	1,500,000	-	(1,500,000)	-	-
Compensated absences payable	297,520	31,859	(87,191)	242,188	95,312
Net pension liability	1,071,667	354,868	-	1,426,535	-
Total other long term obligations	2,869,187	386,727	(1,587,191)	1,668,723	95,312
Total	$ 28,873,516	$ 994,509	$ (2,508,154)	$ 27,359,871	$ 1,037,539

In April 2013, the District entered into a promissory note agreement with the Columbiana County Board of Commissioners in the amount of $1,500,000 to resolve litigation with the City of East Liverpool. The District is paying an annual interest rate of 1 percent. The full principal amount was paid during 2017.

The District has pledged future revenues, net of operating expenses, to repay OPWC and OWDA loans, revenue bonds, and the promissory note. The debt is payable solely from net revenues through 2056. Annual principal and interest payments on the debt issues are expected to require 219 percent of net revenues. The total principal remaining to be paid on the debt is $25,691,148. Principal and interest paid for the current year and net revenues were $3,253,868 and $1,505,344, respectively.

In December 2016, the District issued $3,100,000 in Water System Improvement Revenue Bonds for the purpose of paying off USDA loans that the District was paying on behalf of the Village of Salineville, as well as paying off the Promissory Note due to Columbiana County. Only $2,793,890 of the proceeds were received by the District as of December 31, 2017. Therefore, the Bonds are not finalized and are not included in the schedule of future annual debt service requirements. This loan is expected to be finalized during 2018.

A line of credit has been established with the Ohio Water Development Authority (OWDA) in the amount of$11,870,111 for a transmission main, pump station and intake project. This loan will not have an accurate repayment schedule until the loan is finalized and, therefore, is not included in the schedule of future annual debt service requirements. Until a final repayment schedule is available, the District will pay based on estimates. The balance of the loan as of December 31, 2017, is $7,914,061.

During 2017, an OPWC loan was obtained for the Hibbets Mill road waterline replacement. This loan has not yet been finalized.

Year	OPWC Loans	OWDA Loans	Revenue Bonds Principal	Revenue Bonds Interest
2018	$ 80,327	$ 17,191	$ 218,600	$ 612,644
2019	80,328	17,191	228,500	602,807
2020	80,328	17,191	238,900	592,524
2021	80,328	17,191	249,600	581,774
2022	80,328	17,191	260,900	570,541
2023-2027	308,885	85,955	1,490,900	2,665,745
2028-2032	83,330	85,955	1,858,000	2,298,699
2033-2037	-	85,955	2,315,300	1,841,278
2038-2042	-	42,978	2,885,600	1,271,282
2043-2047	-	-	3,150,400	599,229
2048	-	-	717,600	32,292
Total	$ 793,854	$ 386,798	$ 13,614,300	$ 11,668,815

Note 6 – Defined Benefit Pension 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 each pension plan's collective actuarial present value of projected benefit payments attributable to past periods of service, net of each pension plan's fiduciary net position. The net pension liability calculation is dependent on critical long-term variables, including estimated average life expectancies, earnings on investments, cost of living adjustments and others. While these estimates use the best information available, unknowable future events require adjusting this estimate annually.

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

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

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

Plan Description – Ohio Public Employees Retirement System (OPERS)

Plan Description **–** District employees participate in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans. The traditional pension plan is a cost-sharing, multiple-employer defined benefit pension plan. The member-directed plan is a defined contribution plan, and the combined plan is a cost-sharing, multiple-employer defined benefit pension plan with defined contribution features. While members (e.g. District employees) may elect the member-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. The report may be obtained by visiting https://www.opers.org/financial/reports.shtml, by writing to the Ohio Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642, or by calling 800-222-7377.

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

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

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

Members who retire before meeting the age and years of service credit requirement for unreduced benefits receive a percentage reduction in the benefit amount.

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

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

	State and Local
2017 Statutory maximum contribution rates	
Employer	14.00%
Employee	10.00%
2017 Actual contribution rates	
Employer:	
Pension	13.00%
Post-employment health care benefits	1.00%
Total employer	14.00%
Employee	10.00%

Employer contribution rates are actuarially determined and are expressed as a percentage of covered payroll. The District's contractually required contribution was $95,359 for 2017. Of this amount, $7,476 is reported as an intergovernmental payable.

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

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

	OPERS
Proportion of the pension liability - prior measurement date	0.006187 %
Proportion of the pension liability - current measurement date	0.006282 %
Change in proportionate share	0.000095 %
Proportionate share of net pension liability	$ 1,426,535
Pension expense	$ 329,950

At December 31, 2017, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	OPERS
Deferred outflows of resources	
Differences between expected and actual experience	$ 1,934
Net difference between projected and actual earnings on pension plan investments	212,444
Changes of assumptions	226,266
Employer contributions subsequent to the measurement date	95,359
Changes in proportionate share and differences between employer contributions and proportionate share of contributions	35,713
Total deferred outflows of resources	$ 571,716
Deferred inflows of resources	
Differences between expected and actual experience	$ 8,490

$95,359 reported as deferred outflows of resources related to pension resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending December 31, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

	OPERS
Year ending December 31:	
2018	$ 205,808
2019	192,436
2020	75,850
2021	(6,227)
Total	$ 467,867

Actuarial Assumptions

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

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employers and plan members) and include the types of benefits provided at the time of each valuation. The total pension liability was determined by an actuarial valuation as of December 31, 2016, using the following actuarial assumptions applied to all periods included in the measurement in accordance with the requirements of GASB 67. Key methods and assumptions used in the latest actuarial valuations are presented as follows.

Wage inflation	3.25 percent
Future salary increases, including inflation	3.25 to 10.75 percent including wage inflation
COLA or Ad Hoc COLA	3 percent, simple
Investment rate of return	7.5 percent
Actuarial cost method	Individual entry age

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

The most recent experience study was completed for the five year period ended December 31, 2015.

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.

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

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 that follows 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 (arithmetic)
Fixed income	23.00%	2.75%
Domestic equities	20.70%	6.34%
Real estate	10.00%	4.75%
Private equity	10.00%	8.97%
International equities	18.30%	7.95%
Other investments	18.00%	4.92%
Total	100.00%	5.66%

Discount Rate The discount rate used to measure the total pension liability was 7.5 percent. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and those of the contributing employers are made at the statutorily required rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefits payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate The following table presents the District's proportionate share of the net pension liability calculated using the current period discount rate assumption of 7.5 percent, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.5 percent) or one percentage point higher (8.5 percent) than the current rate:

	1% Decrease (6.50%)	Current discount rate (7.50%)	1% Increase (8.50%)
Employer proportionate share of the net pension liability	$ 2,179,351	$ 1,426,535	$ 799,196

Note 7 – Post–Employment Benefits

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

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

In order to qualify for postemployment health care coverage, age and service retirees under the traditional pension and combined plans must have twenty or more years of qualifying Ohio service credit. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available. The health care coverage provided by OPERS meets the definition of an Other Post Employment Benefit (OPEB) as described in GASB Statement 45. See OPERS' CAFR referenced as follows for additional information.

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, Ohio 43215-4642, or by calling (614) 222-5601 or 800-222-7377.

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

Employer contribution rates are expressed as a percentage of the earnable salary of active members. In 2017, state and local employers contributed at a rate of 14.0 percent of earnable salary. These are the maximum employer contribution rates permitted by the Ohio Revised Code. Active member contributions do not fund health care.

Each year, the OPERS Board determines the portion of the employer contribution rate that will be set aside to fund health care plans. The portion of employer contributions allocated to health care for members in the Traditional Pension Plan and Combined Plan was 1.0% during calendar year 2017. As recommended by OPERS' actuary, the portion of employer contributions allocated to health care beginning January 1, 2018 decreased to 0.0% for both plans. The OPERS Board is also authorized to establish rules for the retiree or their surviving beneficiaries to pay a portion of the health care provided. Payment amounts vary depending on the number of covered dependents and the coverage selected. The employer contribution as a percentage of covered payroll deposited to the RMA for participants in the Member-Directed Plan for 2017 was 4.0%.

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, 2017, 2016, and 2015 was $7,335, $16,221, and $15,402, respectively. For 2017, 92.16 percent has been contributed with the balance being reported as an intergovernmental payable. The full amount has been contributed for 2016 and 2015.

Note 8 – Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries; and natural disasters. During 2017, the District obtained commercial insurance through Cooper Insurance Agency, Incorporated, for all insurance. The coverage and deductibles are as follows:

Type of coverage	Coverage	Deductible
Automobile liability	$ 1,000,000	$ 500
General liability (aggregate)	3,000,000	1,000
Property liability	31,372,735	2,500
Inland Marine	803,182	500

Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years. There has not been a significant reduction in coverage from the prior year.

Workers' compensation coverage is provided by the State of Ohio. The District pays the State Workers' Compensation System a premium based on a rate per $100 of salaries. This rate is calculated based on accident history and administrative costs.

Note 9 – Employee Benefits

Compensated Absences

Vacation leave is earned at rates which vary depending upon length of service and standard work week. District employees are paid for earned, unused vacation leave at the time of termination of employment. Sick leave is earned at the rate of one and one quarter days per month of service. Upon retirement, employees are paid up to 120 days of the accumulated sick leave.

Insurance Benefits

The District provides medical/surgical, prescription drug, vision, and dental insurance through Medical Mutual and life insurance through Companion Life Insurance to all eligible employees.

Note 10 – Litigation

The District is not currently a party to any legal proceedings which would have a material impact on the financial statements.

Note 11 – Transfer Agreement

On April 25, 2007, the District entered into a management agreement with the Village of Salineville (the Village). The Village is the owner and operator of a certain water supply treatment facility and a water distribution system (Salineville Water System) located in Columbiana County, Ohio consisting of certain real estate and improvements thereon. The Village is also the owner of certain personal property, real property easements, rights of way and improvements thereon utilized for the operations of the Salineville Water System. The Village appointed and designated the District as the manager of the Salineville Water System. During 2016, transfer of ownership was completed via a transfer agreement that set forth all terms, conditions, obligations and responsibilities of the Parties including financial compensation from the District to the Village in the amount of $933,128. All necessary governmental approvals including, but not limited to, the Ohio EPA and applicable funding authorities to whom the Village is currently indebted was obtained.

The District agreed to use water revenues to pay debt service on the Salineville Water System. During 2017, the District paid $18,616 towards the payment of debt service. These payments are reflected as a contractual service on the financial statements. As of December 31, 2017, the District has issued USDA loans partially for the purpose of paying off the Village debt that the District was paying on.

Note 12 – Contractual Commitment

The District has a verbal agreement with Columbiana County whereby the District pays approximately $32,300 annually towards OPWC loans. During 2017, this payment of $29,700 is reflected as contracted services on the financial statements.

Buckeye Water District

Required Supplementary Information

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

Last Four Years (1)

	2017	2016	2015	2014
Ohio Public Employees Retirement System (OPERS) - Traditional Plan				
District's proportion of the net pension liability	0.006282%	0.006187%	0.005542%	0.005542%
District's proportionate share of the net pension liability	$ 1,426,535	$ 1,071,667	$ 668,427	$ 653,330
District's covered employee payroll	$ 811,050	$ 770,092	$ 679,417	$ 615,715
District's proportionate share of the net pension liability as a percentage of its covered employee payroll	175.89%	139.16%	98.38%	106.11%
Plan fiduciary net position as a percentage of total pension liability	77.25%	81.08%	86.45%	86.36%

(1) Information prior to 2014 is not available and the amounts presented are as of District's measurement date which is the prior year end.

Buckeye Water District

Required Supplementary Information
Schedule of District Contributions
Last Five Years (1)

	2017	2016	2015	2014	2013
Ohio Public Employees Retirement System (OPERS) - Traditional Plan					
Contractually required contribution	$ 95,359	$ 97,326	$ 92,411	$ 81,530	$ 80,043
Contributions in relation to contractually required contribution	(95,359)	(97,326)	(92,411)	(81,530)	(80,043)
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -
District covered employee payroll	$ 733,531	$ 811,050	$ 770,092	$ 679,417	$ 615,715
Contributions as a percentage of covered employee payroll	13.00%	12.00%	12.00%	12.00%	13.00%

(1) Information prior to 2013 is not available.

Buckeye Water District

Notes to Required Supplementary Information
For the Year Ended December 31, 2017

**Ohio Public Employees Retirement System (OPERS) -
Traditional Plan**

Changes in benefit terms: There were no changes in benefit terms from the amounts reported.

Changes in assumptions: There was a change in methods and assumptions used in the calculation of actuarial determined contributions for 2017. See the notes to the basic financials for the methods and assumptions in this calculation.

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Buckeye Water District
Columbiana County
1925 Clark Avenue
P.O. Box 105
Wellsville, Ohio 43968

To the Board of Trustees:

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States, the financial statements of the business-type activities of the Buckeye Water District, Columbiana County, Ohio (the District) as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated August 16, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and corrected on a timely basis. 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 deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify a certain deficiency in internal control, described in the accompanying Schedule of Findings that we consider to be a material weakness. We consider finding 2017-001 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matter that is required to be reported under *Government Auditing Standards* and which is described in the accompanying Schedule of Findings as item 2017-002

We also noted certain matters not requiring inclusion in the report that we reported to the District's management in a separate letter dated August 16, 2018.

Entity's Responses to Findings

The District's responses to the findings identified in our audit are described in the accompanying Corrective Action Plan. We did not audit the District's responses and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Charles E Harris Associates

Charles E. Harris & Associates, Inc.
August 16, 2018

SCHEDULE OF FINDINGS
DECEMBER 31, 2017

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

FINDING NUMBER 2017-001
Material Weakness

Audit Adjustments and Reclassifications:

During 2017 several errors were noted in the District's financial statements that required audit adjustments and reclassifications, the most significant of which is as follows:

- Certain OPWC loans for Hibbets Mill Road Waterline Replacement were not booked (portion of debt not booked was $172,105).

The accompanying financial statements and the District's records have been adjusted to properly reflect these transactions.

Sound financial reporting is the responsibility of the District and is essential to ensure the information provided to the readers of the financial statements is complete and accurate. We recommend the District adopt policies and procedures to identify and correct errors and omissions in a timely manner. Management can use the accounting software manual, and other Auditor of State guidance to aid in properly identifying account classifications and preparing annual financial statements.

Management Response:

See Corrective Action Plan.

FINDING NUMBER 2017-002
Non-Compliance

The Buckeye Water District does not levy taxes, however, Ohio Revised Code Section 5705.28 (B)(2) requires that it should follow Ohio Revised Code Sections 5705.36, .38, .40, .41, .44 and .45. Documents prepared in accordance with these sections need not be filed with the county auditor or county budget commission.

Ohio Revised Code Section 5705.38 requires, in part, that on or about the first day of each fiscal year, an appropriation measure is to be passed by the taxing authority. Ohio Revised Code Section 5705.41(B) states that no subdivision or taxing unit is to expend money unless it has been appropriated.

The District did not formally adopt an appropriation measure for 2017 and expenditures are limited by the appropriations established for each fund, therefore, all expenditures made by the District in 2017 exceeded appropriations of zero.

Management Response:

See Corrective Action Plan.

BUCKEYE WATER DISTRICT
COLUMBIANA COUNTY, OHIO

SCHEDULE OF PRIOR AUDIT FINDINGS – Prepared by Management
December 31, 2017

Finding Number	Finding Summary	Status	Additional Information
2016-001	Material Weakness – Audit Adjustments and Reclassifications	Not corrected	Reissued as Finding 2017-001
2016-002	Material Weakness – Timely postings and cash reconciliation	Partially corrected	Moved to Management Letter

CORRECTIVE ACTION PLAN – Prepared by Management
December 31, 2017

FINDING NUMBER	PLANNED CORRECTIVE ACTION	ANTICIPATED COMPLETION DATE	RESPONSIBLE CONTACT PERSON
2017-001	As a new fiscal officer to Buckeye Water District in 2018, I understand that part of my job is to identify and correct errors by the previous administration and to set forth a plan to identify and correct any errors going forward. This audit has provided me with an in depth look into the financial activity for identification of previous errors. In an effort to perform corrective measures, management plans to set forth an action plan of properly classifying expenditures with the construction project that they are tied to. Management plans to review expenditures on a monthly basis to help in this classification identification process. In the future, management plans to correct and/or add fund classifications as required for reconciliation of errors as identified in this finding. If management is unsure of proper account classifications, it shall use the accounting software manual/support or shall reach out to Auditor of State for guidance.	Immediately	Tiffany Chetock, Fiscal Officer

CORRECTIVE ACTION PLAN – Prepared by Management
December 31, 2017

FINDING NUMBER	PLANNED CORRECTIVE ACTION	ANTICIPATED COMPLETION DATE	RESPONSIBLE CONTACT PERSON
2017-002	As a new fiscal officer to Buckeye Water District in 2018, I understand that part of my job is to identify and correct errors by the previous administration and to set forth a plan to identify and correct any errors going forward. After research of supporting ORC, management is now in understanding of how these codes apply to the District when it comes to budgets and appropriations. Management understands that District budgets and appropriation documents prepared need not be filed with the county auditor or county budget commission. Furthermore, management understands although ORC Section 5705.39 does not apply, Section 5705.28 (B)(2) prohibits appropriations from exceeding estimated revenue and does apply to the district. ORC Section 5705.38 requires, in part, that on or about the first day of each fiscal year, an appropriation measure is to be passed by the taxing authority. ORC Section 5705.41(B) states that no subdivision or taxing unit is to expend money unless it has been appropriated. Management's corrective action plan is to have draft budget/appropriations that do not exceed expected revenues prepared before the end of the preceding year. Management will plan to pass the proposed budget/appropriations that do not exceed expected revenues at the first board meeting of the current year, if not sooner. This plan will keep the District in Compliance with the Ohio Revised Code.	Immediately	Tiffany Chetock, Fiscal Officer

BUCKEYE WATER DISTRICT

COLUMBIANA COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
NOVEMBER 8, 2018

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