



Dave Yost • Auditor of State

**WESTERN GUERNSEY REGIONAL WATER DISTRICT
GUERNSEY COUNTY**

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Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT

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

To the Board of Trustees:

Report on the Financial Statements

We have audited the accompanying financial statements of the Western Guernsey Regional Water District, Guernsey County, Ohio (the District), as of and for the years ended December 31, 2015 and 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the Table of Contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Basis for Qualified Opinion

Inventories are reported at \$63,767 and \$69,598, respectively, for the years ended December 31, 2015 and 2014. These amounts represent 16% and 17% of Total Current Assets respectively, for 2015 and 2014. We were unable to obtain sufficient appropriate audit evidence supporting the amounts recorded as Inventories. Consequently, we were unable to determine whether any adjustments to these amounts were necessary.

Qualified Opinion

In our opinion, except for the possible effects of the matter described in the *Basis for Qualified Opinion* paragraph, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Western Guernsey Regional Water District, Guernsey County, Ohio, as of and for the years ended December 31, 2015 and 2014 and the changes in its financial position and its cash flows in accordance with the accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 10 to the financial statements, during the years ended December 31, 2015 and 2014, 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 listed in the Table of Contents, to supplement the basic financial statements. Although this information is not part of the basic financial statements, the Governmental Accounting Standards Board considers it essential for placing the basic financial statements in an appropriate operational, economic, or historical context. We applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, consisting of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries to the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not opine or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to opine or provide any other assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 2, 2016, 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.

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive style with a large, looping "D" and "Y".

Dave Yost
Auditor of State
Columbus, Ohio

November 2, 2016

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**WESTERN GUERNSEY REGIONAL WATER DISTRICT
GUERNSEY COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014**

The discussion and analysis of the Western Guernsey Regional Water District's (the "District") financial performance provides an overall review of the District's financial activities for the years ended December 31, 2015 and 2014. Readers should also review the basic financial statements and notes to enhance their understanding of the Western Guernsey Regional Water District's financial performance.

Financial Highlights

Key financial highlights for 2015 and 2014 are as follows:

- Total operating revenues were \$841,058 and \$724,303 for 2015 and 2014 respectively, a 16 percent increase from 2014 to 2015.
- Total operating expenses were \$748,786 for 2015 and \$682,771 for 2014, a \$66,015 increase in expenses from 2014 to 2015.
- In 2014 net position increased \$16,629. Net position increased \$71,599 in 2015.
- Outstanding debt decreased from \$1,247,581 to \$1,139,163 due to principal payments.

Using this Annual Financial Report

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

The statement of net position and the statement of revenues, expenses, and changes in net position reflect how the District did financially during the years ended December 31, 2015 and 2014. These statements include all assets and liabilities using the accrual basis of accounting. This basis of accounting considers all of the District's revenues and expenses regardless of when cash is received or paid.

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

**WESTERN GUERNSEY REGIONAL WATER DISTRICT
GUERNSEY COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014**

Table 1 provides a summary of the District's net position as of December 31, 2015, 2014 and 2013.

**Table 1
Net Position**

	2015	Restated 2014	2013
Assets			
Current and Other Assets	\$ 391,606	\$ 406,346	\$ 389,861
Noncurrent Assets	1,895,873	1,930,100	1,625,162
Total Assets	<u>2,287,479</u>	<u>2,336,446</u>	<u>2,015,023</u>
Deferred Outflows of Resources			
Pension	<u>21,402</u>	<u>13,738</u>	<u>0</u>
Liabilities			
Current Liabilities	92,020	107,136	364,664
Noncurrent Liabilities:			
Net Pension Liability	112,651	110,106	0
Other Amounts	1,102,958	1,205,268	642,946
Total Liabilities	<u>1,307,629</u>	<u>1,422,510</u>	<u>1,007,610</u>
Deferred Inflows of Resources			
Pension	<u>1,979</u>	<u>0</u>	<u>0</u>
Net Position			
Net Investment in Capital Assets	756,710	682,519	971,380
Restricted	121,705	207,543	138,071
Unrestricted	<u>120,858</u>	<u>37,612</u>	<u>N/A</u>
Total Net Position	<u>\$ 999,273</u>	<u>\$ 927,674</u>	<u>N/A</u>

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 the deferred outflows related to pension.

**WESTERN GUERNSEY REGIONAL WATER DISTRICT
GUERNSEY COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014**

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 of resources.

**WESTERN GUERNSEY REGIONAL WATER DISTRICT
GUERNSEY COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014**

As a result of implementing GASB 68, 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 also had the effect of restating net position at December 31, 2014, from \$1,024,042 to \$927,674.

Total assets decreased by \$48,967. Restricted cash and cash equivalents decreased by \$54,251 due to the payment of debt. Capital assets decreased in 2015 by \$34,227, which is attributable to current year depreciation exceeding additional purchases. Total liabilities decreased by \$114,881 in 2015. This decrease is mainly due the payments made on debt.

Capital assets increased in 2014 by \$304,938, which is due the completion of the waterline project. The decrease in current liabilities in 2014, excluding net pension liability, of \$257,528 is due to a reduction in contracts and retainage payable. Total noncurrent liabilities increased by \$562,322 in 2014. This increase is mainly due to additional loan proceeds from the Ohio Water Development Authority (OWDA) for the waterline project. In 2014 the District's net position increased by \$16,629.

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**WESTERN GUERNSEY REGIONAL WATER DISTRICT
GUERNSEY COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014**

In order to further understand what makes up the changes in net position for the current year, the following table gives readers further details regarding the results of activities for 2015 and 2014.

Table 2 shows the change in net position for the years ended December 31, 2015, 2014 and 2013.

**Table 2
Changes in Net Position**

	2015	2014	2013
Operating Revenues			
Charges for Services	\$ 841,058	\$ 724,303	\$ 700,460
Non-Operating Revenues			
Intergovernmental Revenue	0	0	549,397
Interest	118	378	472
Other	2,670	2,670	2,976
Total Revenues	843,846	727,351	1,253,305
Operating Expenses			
Contract Services	416,044	386,316	312,037
Professional Fees	5,800	15,039	5,103
Advertising	656	20	162
Bank Charges	481	466	390
Wages	130,824	123,952	121,371
Employee Benefits	16,891	19,151	18,752
Postage and Office Supplies	9,287	13,157	13,576
Group Insurance	18,448	15,323	13,680
Insurance	8,374	5,145	8,251
Small Tools and Supplies	17,875	25,873	52,248
Ground Maintenance	0	919	521
Workers compensation	1,586	927	1,000
Outside Services	2,830	3,235	2,282
Depreciation	48,727	14,756	14,451
Dues and Subscriptions	2,720	2,636	3,078
Vehicle Expense	19,726	11,289	13,992
Phone and Utilities	25,270	25,867	27,410
Licenses and Permits	2,185	3,530	2,185
Repairs	19,647	14,207	21,986
Bed Debt	387	0	0
Miscellaneous	1,028	963	1,051
Non-Operating Expenses			
Interest Expense	23,461	27,951	6,802
Total Expenses	772,247	710,722	640,328
Change in Net Position	\$ 71,599	\$ 16,629	\$ 612,977

**WESTERN GUERNSEY REGIONAL WATER DISTRICT
GUERNSEY COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014**

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 \$13,738 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 \$12,251. Consequently, in order to compare 2015 total expenses to 2014, the following adjustments are needed:

Total 2015 expenses under GASB 68	\$	772,247
Pension expense under GASB 68		(12,251)
2015 contractually required contribution		15,391
Adjusted 2015 expenses		775,387
Total 2014 expenses under GASB 27		710,722
Increase in total expenses not related to pension	\$	64,665

Operating revenues consisted of user charges for water consumption. Operating expenses reflect the cost of providing these services. In 2015 and 2014 net position increased \$71,599 and \$16,629, respectively.

Capital Assets and Debt Administration

Capital Assets

Table 3 provides a summary of the District's capital assets as of December 31, 2015, 2014 and 2013.

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

	2015	2014	2013
Buildings and Improvements	\$ 22,720	\$ 23,549	\$ 24,378
Infrastructure	1,847,443	1,872,403	36,275
Machinery and Equipment	3,833	7,033	10,279
Vehicles	9,282	14,470	19,658
Office Equipment	95	145	195
Construction in Progress	0	0	1,521,877
Land	12,500	12,500	12,500
Total	\$ 1,895,873	\$ 1,930,100	\$ 1,625,162

In 2015 assets decreased by \$34,227, which is attributable to current year depreciation exceeding additional purchases. The District completed a new waterline project in 2014. The total cost of the project was \$1,841,571. Depreciation expense amounted to \$48,727, \$14,756 and \$14,451 during 2015, 2014 and 2013, respectively. Note 6 provides capital asset activity during the 2015 and 2014.

Debt Administration

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

**Table 4
Outstanding Debt, at December 31**

	2015	2014	2013
Notes Payable - Berkadia Commercial Mortgage LLC	\$ 0	\$ 90,125	\$ 100,793
Ohio Water Development Authority (OWDA) Loan	1,139,163	1,157,456	552,989
<i>Total</i>	<u>\$ 1,139,163</u>	<u>\$ 1,247,581</u>	<u>\$ 653,782</u>

Additional information concerning the District’s debt can be found in Note 5 to the basic financial statements.

Contacting the District’s Financial Management

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

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**WESTERN GUERNSEY REGIONAL WATER DISTRICT
GUERNSEY COUNTY, OHIO**

**STATEMENTS OF NET POSITION
AS OF DECEMBER 31, 2015 AND 2014**

	2015	2014
ASSETS		
Current Assets:		
Cash and Cash Equivalents	\$ 75,509	\$ 30,178
Restricted Cash and Cash Equivalents	0	54,251
Segregated Accounts:		
Indebt Service	52,406	51,818
Capital Improvement	69,299	101,474
Accounts Receivable	130,625	99,027
Inventories	63,767	69,598
Total Current Assets	391,606	406,346
Noncurrent Assets:		
Capital Assets		
Buildings and Improvements	97,242	97,242
Infrastructure	2,780,656	2,766,156
Machinery and Equipment	50,987	50,987
Vehicles	67,470	67,470
Office Equipment	1,439	1,439
	2,997,794	2,983,294
Less: Accumulated Depreciation	(1,114,421)	(1,065,694)
	1,883,373	1,917,600
Land	12,500	12,500
Total Noncurrent Assets	1,895,873	1,930,100
Total Assets	2,287,479	2,336,446
Deferred Outflows of Resources		
Pension	21,402	0
LIABILITIES		
Current Liabilities		
Current Portion, Long-Term Debt	\$ 36,205	\$ 42,313
Accounts Payable	46,394	52,883
Accrued Liabilities	4,923	7,503
Customer Deposits	4,498	4,437
Total Current Liabilities	92,020	107,136
Noncurrent Liabilities		
Long-Term Debt Net of Current Portion	1,102,958	1,205,268
Net Pension Liability	112,651	0
Total Noncurrent Liabilities	1,215,609	1,205,268
Total Liabilities	1,307,629	1,312,404
Deferred in Flows of Resources		
Pension	1,979	0
NET POSITION:		
Net Investment in Capital Assets	756,710	682,519
Restricted for Debt Service	52,406	106,069
Restricted for Capital Improvements	69,299	101,474
Unrestricted	120,858	133,980
Total Net Position	\$ 999,273	\$ 1,024,042

See accompanying notes and accountant's compilation report.

**WESTERN GUERNSEY REGIONAL WATER DISTRICT
GUERNSEY COUNTY, OHIO**

**STATEMENTS OF REVENUE, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014**

	2015	2014
Operating Revenue:		
Charges for Services	\$ 841,058	\$ 724,303
Operating Expenses:		
Contract Services	416,044	386,316
Professional Fees	5,800	15,039
Advertising	656	20
Bank Charges	481	466
Wages	130,824	123,952
Employee Benefits	16,891	19,151
Postage and Office Supplies	9,287	13,157
General Insurance	8,374	5,145
Group Insurance	18,448	15,323
Workers Compensation	1,586	927
Small Tools and Supplies	17,875	25,873
Ground Maintenance	0	919
Outside Services	2,830	3,235
Depreciation	48,727	14,756
Dues and Subscriptions	2,720	2,636
Vehicle Expense	19,726	11,289
Phone and Utilities	25,270	25,867
Licenses and Permits	2,185	3,530
Repairs	19,647	14,207
Bad Debt	387	0
Miscellaneous	1,028	963
Total Operating Expenses	748,786	682,771
Operating Income	92,272	41,532
Non-Operating Revenues (Expenses):		
Rental Income	1,020	1,020
Hydrant Assessments	1,650	1,650
Interest Revenue	118	378
Interest Expense	(23,461)	(27,951)
Total Non-Operating Revenue (Expenses)	(20,673)	(24,903)
Increase in Net Position	71,599	16,629
Net Position, Beginning of Period (See Note 10)	927,674	1,007,413
Net Position, End of Period	\$ 999,273	\$ 1,024,042

See accompanying notes and accountant's compilation report.

**WESTERN GUERNSEY REGIONAL WATER DISTRICT
GUERNSEY COUNTY, OHIO**

**STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014**

	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash Received from Customers	\$ 809,460	\$ 723,586
Cash Paid to Suppliers and Employees	(703,438)	(652,174)
Net Cash Provided by Operating Activities	106,022	71,412
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Rental Income	1,020	1,020
Hydrant Assessments	1,650	1,650
Net Cash Provided by Noncapital Financing Activities	2,670	2,670
CASH FLOWS FROM INVESTING ACTIVITIES:		
Sale of Investment	0	54,000
Interest Received	118	452
Net Cash Provided by Investing Activities	118	54,452
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Proceeds of OWDA Loans	15,630	637,805
Purchase of Capital Assets	(14,500)	(637,805)
Payments of Long-Term Debt	(124,048)	(44,006)
Interest Paid	(26,399)	(27,911)
Net Cash Used for Capital and Related Financing Activities	(149,317)	(71,917)
Net Increase (Decrease) in Cash and Cash Equivalents	(40,507)	56,617
Cash and Cash Equivalents, Beginning of Period	237,721	181,104
Cash and Cash Equivalents, End of Period	\$ 197,214	237,721
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating Income	\$ 92,272	\$ 41,532
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities		
Depreciation	48,727	14,756
(Increase) Decrease in Assets and Deferred Outflows:		
Accounts Receivable	(31,598)	(717)
Inventory	5,831	(13,226)
Deferred Outflows	(7,664)	0
Increase (Decrease) in Liabilities and Deferred Inflows:		
Accounts Payable	(6,489)	28,098
Deferred Inflows	1,979	0
Net Pension Liability	2,545	0
Accrued Payroll Taxes	358	674
Customer Deposits	61	295
Net Cash Provided by Operating Activities	\$ 106,022	71,412

See accompanying notes and accountant's compilation report.

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**WESTERN GUERNSEY REGIONAL WATER DISTRICT
GUERNSEY COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of Entity

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

Basis of Presentation

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

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

Measurement Focus and Basis of Accounting

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

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

Cash and Cash Equivalents

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

**WESTERN GUERNSEY REGIONAL WATER DISTRICT
GUERNSEY COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014**

Accounts Receivable

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

Inventory

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

Property, Plant and Equipment

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

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

Long-Term Obligations

The District records obligations not expected to be financed within one year by available financial resources as long-term debt, which consisted of Berkadia Commercial Mortgage LLC notes (formerly GMAC Commercial Mortgage Corporation) and a Ohio Water Development Authority (OWDA) Loan.

Net Position

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

**WESTERN GUERNSEY REGIONAL WATER DISTRICT
GUERNSEY COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014**

Accumulated Leave

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

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

As of December 31, 2015 the District's employees had not accrued any significant leave balances.

Revenue and Expenses

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

Use of Estimates

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

NOTE 2: EQUITY IN POOLED CASH AND EQUIVALENTS

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

Cash on Hand

For the years ended December 31, 2015 and 2014, the District had \$150 and \$175 respectively, in undeposited cash on hand which is included as part of "Cash and Cash Equivalents."

**WESTERN GUERNSEY REGIONAL WATER DISTRICT
GUERNSEY COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014**

Deposits

Custodial credit risk for deposits is the risk that in the event of bank failure the District will not be able to recover deposits or collateral securities that are in the possession of an outside party. For the years ended December 31, 2015 and 2014, the District's deposits were \$197,064 and \$237,546, and the bank balances were \$193,254 and \$177,308, respectively. Of the bank balances, all amounts were covered by FDIC insurance.

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

NOTE 3: SEGREGATED ACCOUNTS

The District is required by loan covenants with Berkadia, formerly GMAC, to segregate amounts for debt service and capital reserve. These balances are maintained in bank accounts separate from the general account. This loan was paid off January 2, 2015.

NOTE 4: RECEIVABLES

Receivables at December 31, 2015 consisted of \$130,625 in water service billings due from water system users during January and February 2016. Receivables at December 31, 2014 consisted of \$99,027 in water service billings due from water system users during January and February 2015.

**WESTERN GUERNSEY REGIONAL WATER DISTRICT
GUERNSEY COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014**

NOTE 5: LONG-TERM DEBT OBLIGATIONS

The District had the following long-term debt obligations as of December 31, 2015 and December 31, 2014:

	2015	2014
Note payable - Berkadia Commercial Mortgage LLC, formerly GMAC issued in May 1971, collateralized by all properties considered part of the water system. Annual payments of \$15,876 include interest at 5%. Final payment due May 2020.	\$ 0	\$ 90,125
Notes payable - Ohio Water Development Authority (OWDA) Loan, issued February 2013. Semi-annual payments begin in July 2014 and include interest at 1.75%. Final payment will be made June 2041.	1,139,163	1,157,456
Total Long-Term Obligations	1,139,163	1,247,581
less: current portion	36,205	42,313
Long-term Debt, net of current portion	\$ 1,102,958	\$ 1,205,268

During the year ended December 31, 2015, principal payments amounted to \$90,125 on the 1971 Note Payable. During year ended December 31, 2013 the District entered into a loan for \$1,850,553 with the OWDA for a waterline replacement. As of December 31, 2015, \$1,753,561 had been had been drawn down on the loan. In 2013, the OWDA forgave \$549,397 of the loan. During the year ended December 31, 2015, principal payments amounted to \$33,923 on the OWDA loan. During the year ended December 31, 2014, principal payments amounted to \$10,668 on the 1971 Note Payable and \$33,338 on the OWDA Loan. Balances at January 1, 2014 of the 1971 Note Payable and the OWDA loan were \$100,793, and \$552,989, respectively.

**WESTERN GUERNSEY REGIONAL WATER DISTRICT
GUERNSEY COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014**

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

Year-Ending	OWDA Loan	
December 31:	Principal	Interest
2016	\$ 36,205	\$ 19,778
2017	36,841	19,141
2018	37,489	18,494
2019	38,147	17,835
2020	38,818	17,164
2021-2025	204,568	75,344
2026-2030	223,188	56,723
2031-2035	243,504	36,407
2036-2040	265,671	14,242
2041	14,732	129
Total	\$ 1,139,163	\$ 275,257

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**WESTERN GUERNSEY REGIONAL WATER DISTRICT
GUERNSEY COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014**

NOTE 6: CAPITAL ASSETS

Capital asset activity for the years ended December 31, 2015 and 2014 was as follows:

	Balance			Balance
	1/1/15	Additions	Deletions	12/31/15
Nondepreciable Capital Assets				
Land	\$ 12,500	\$ 0	\$ 0	\$ 12,500
Depreciable Capital Assets				
Buildings and Improvements	97,242	0	0	97,242
Infrastructure	2,766,156	14,500	0	2,780,656
Machinery and Equipment	50,987	0	0	50,987
Vehicles	67,470	0	0	67,470
Office Equipment	1,439	0	0	1,439
Total Depreciable Capital Assets	2,983,294	14,500	0	2,997,794
Less Accumulated Depreciation				
Buildings and Improvements	(73,693)	(829)	0	(74,522)
Infrastructure	(893,753)	(39,460)	0	(933,213)
Machinery and Equipment	(43,954)	(3,200)	0	(47,154)
Vehicles	(53,000)	(5,188)	0	(58,188)
Office Equipment	(1,294)	(50)	0	(1,344)
Total Accumulated Depreciation	(1,065,694)	(48,727)	0	(1,114,421)
Depreciable Capital Assets, Net of				
Accumulated Depreciation	1,917,600	(34,227)	0	1,883,373
Total Capital Assets	\$ 1,930,100	\$ (34,227)	\$ 0	\$ 1,895,873

**WESTERN GUERNSEY REGIONAL WATER DISTRICT
GUERNSEY COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014**

	Balance			Balance
	1/1/14	Additions	Deletions	12/31/14
Nondepreciable Capital Assets				
Land	\$ 12,500	\$ 0	\$ 0	\$ 12,500
Construction in Progress	1,521,877	319,694	(1,841,571)	0
Total Nondepreciable Capital Assets	1,534,377	319,694	(1,841,571)	12,500
Depreciable Capital Assets				
Buildings and Improvements	97,242	0	0	97,242
Infrastructure	924,585	1,841,571	0	2,766,156
Machinery and Equipment	50,987	0	0	50,987
Vehicles	67,470	0	0	67,470
Office Equipment	1,439	0	0	1,439
Total Depreciable Capital Assets	1,141,723	1,841,571	0	2,983,294
Less Accumulated Depreciation				
Buildings and Improvements	(72,864)	(829)	0	(73,693)
Infrastructure	(888,310)	(5,443)	0	(893,753)
Machinery and Equipment	(40,708)	(3,246)	0	(43,954)
Vehicles	(47,812)	(5,188)	0	(53,000)
Office Equipment	(1,244)	(50)	0	(1,294)
Total Accumulated Depreciation	(1,050,938)	(14,756)	0	(1,065,694)
Depreciable Capital Assets, Net of				
Accumulated Depreciation	90,785	1,826,815	0	1,917,600
Total Capital Assets	\$ 1,625,162	\$ 2,146,509	\$ (1,841,571)	\$ 1,930,100

**WESTERN GUERNSEY REGIONAL WATER DISTRICT
GUERNSEY COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014**

NOTE 7: DEFINED BENEFIT PENSION PLANS

Net Pension Asset/Liability

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

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

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

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

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

**WESTERN GUERNSEY REGIONAL WATER DISTRICT
GUERNSEY COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014**

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

**WESTERN GUERNSEY REGIONAL WATER DISTRICT
GUERNSEY COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014**

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
2015 Statutory Maximum Contribution Rates	
Employer	14.00 %
Employee	10.00 %
 2015 Actual Contribution Rates	
Employer:	
Pension	12.00 %
Post-employment Health Care Benefits	2.00
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 \$15,391 for 2015.

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, 2014, 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:

**WESTERN GUERNSEY REGIONAL WATER DISTRICT
GUERNSEY COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014**

	OPERS Traditional Plan
Proportionate Share of the Net Pension Liability	\$ 112,651
Proportion of the Net Pension Asset/Liability	0.00093400%
Pension Expense	\$ 12,251

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

	OPERS Traditional Plan
Deferred Outflows of Resources	
Net difference between projected and actual earnings on pension plan investments	\$ 6,011
District contributions subsequent to the measurement date	15,391
Total Deferred Outflows of Resources	\$ 21,402
 Deferred Inflows of Resources	
Differences between expected and actual experience	\$ 1,979

\$15,391 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, 2016. 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 Traditional Plan
Year Ending December 31:	
2016	\$ 590
2017	590
2018	1,350
2019	1,502
	\$ 4,032

**WESTERN GUERNSEY REGIONAL WATER DISTRICT
GUERNSEY COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014**

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, 2014, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

<u>Actuarial Information</u>	<u>Traditional Plan</u>
Wage Inflation	3.75 percent
Future Salary Increases, including inflation	4.25 percent to 10.05 percent, including wage inflation
COLA or Ad Hoc COLA	3.00 percent, simple
Investment Rate of Return	8.00 percent
Actuarial Cost Method	Individual Entry Age

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

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

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

OPERS manages investments in four investment portfolios: the Defined Benefits portfolio, the 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

**WESTERN GUERNSEY REGIONAL WATER DISTRICT
GUERNSEY COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014**

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 6.95 percent for 2014.

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 2014 and the long-term expected real rates of return:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Weighted Average Long-Term Expected Real Rate of Return (Arithmetic)</u>
Fixed Income	23.00 %	2.31 %
Domestic Equities	19.90	5.84
Real Estate	10.00	4.25
Private Equity	10.00	9.25
International Equities	19.10	7.40
Other Investments	18.00	4.59
Total	100.00 %	5.28 %

Discount Rate The discount rate used to measure the total pension liability was 8 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 8 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 (7 percent) or one-percentage-point higher (9 percent) than the current rate:

	<u>1% Decrease (7.00%)</u>	<u>Current Discount Rate (8.00%)</u>	<u>1% Increase (9.00%)</u>
District’s proportionate share of the net pension liability:			
Traditional Plan	\$ 207,245	\$ 112,651	\$ 32,980

**WESTERN GUERNSEY REGIONAL WATER DISTRICT
GUERNSEY COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014**

NOTE 8: POST-EMPLOYMENT BENEFITS

Ohio Public Employees Retirement System

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

OPERS maintains two cost-sharing multiple-employer defined benefit post-employment health care trusts, which fund 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 years of qualifying Ohio service credit. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available. The health care coverage provided by OPERS meets the definition of an Other Postemployment Benefit (OPEB) as described in GASB Statement 45. Please see the Plan Statement in the OPERS 2014 CAFR details.

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

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

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

OPERS maintains three health care trusts. The two cost-sharing, multiple-employer trusts, the 401(h) Health Care Trust and the 115 Health Care Trust, work together to provide health care funding to eligible retirees of the Traditional Pension and Combined plans. The third trust is a Voluntary Employee’s Beneficiary Association (VEBA) that provides funding for a Retiree Medical Account for Member-Directed Plan members. Each year, the OPERS Board of Trustees 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 2.0 percent during calendar year 2015. As recommended by OPERS’ actuary, the portion of employer contributions allocated to health care beginning January 1, 2016 remained at 2.0 percent for

**WESTERN GUERNSEY REGIONAL WATER DISTRICT
GUERNSEY COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014**

both 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 employer contribution as a percentage of covered payroll deposited to the VEBA for participants in the Member-Directed Plan for 2015 was 4.5 percent.

The District's contributions allocated to fund post-employment health care benefits for the years ended December 31, 2015, 2014, and 2013 were \$2,565, \$2,290 and \$1,214, respectively. The full amount has been contributed for all years.

NOTE 9: RISK MANAGEMENT

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

NOTE 10: CHANGES IN ACCOUNTING PRINCIPLES

For the year ended December 31, 2015, the District has implemented Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - An Amendment of GASB Statement No. 68*.

GASB Statement No. 68 requires recognition of the entire net pension liability and a more comprehensive measure of pension expense for defined benefit pensions and defined contribution pensions provided to the employees of state and local governmental employers through pension plans that are administered through trusts or equivalent arrangements. The implementation of GASB Statement No. 68 resulted in the inclusion of net pension liability and pension expense components on the full-accrual financial statements. See below for the effect on net position as previously reported.

GASB Statement No. 71 amends paragraph 137 of GASB Statement No. 68 to require that, at transition, a government recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability. The provisions of this Statement are required to be applied simultaneously with the provisions of Statement 68. See below for the effect on net position as previously reported.

**WESTERN GUERNSEY REGIONAL WATER DISTRICT
GUERNSEY COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014**

Net Position December 31, 2014	\$	1,024,042
Adjustments:		
Net Pension Liability		(110,106)
Deferred Outflow - Payments Subsequent to Measurement Date		<u>13,738</u>
Restated Net Position, January 1, 2015	\$	<u><u>927,674</u></u>

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.

Note 11: COMPLIANCE

The District did not formally adopt an operating budget or follow the other budgetary processes outlined by Ohio Rev. Code § 5705.28(B)(2)(a).

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

	<u>2014</u>	<u>2013</u>
<i>Ohio Public Employees' Retirement System (OPERS) - Traditional Plan</i>		
District's Proportion of the Net Pension Liability	0.0009340%	0.0009340%
District's Proportionate Share of the Net Pension Liability	\$ 112,651	\$ 110,106
District's Covered-Employee Payroll	\$ 114,483	\$ 121,369
District's Proportionate Share of the Net Pension Liability as a Percentage of its Covered-Employee Payroll	98.40%	90.72%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	86.45%	86.36%

(1) Information prior to 2013 is not available.

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

	2015	2014	2013
<i>Ohio Public Employees' Retirement System (OPERS Traditional Plan)</i>			
Contractually Required Contribution	\$ 15,391	13,738	\$ 15,778
Contributions in Relation to the Contractually Required Contribution	(15,391)	(13,738)	(15,778)
Contribution deficiency (excess)	\$ 0	\$ 0	\$ 0
District's covered-employee payroll	\$ 128,258	\$ 114,483	\$ 121,369
Contributions as a percentage of covered-employee payroll	12.00%	12.00%	13.00%

(1) Information prior to 2013 is not available.



Dave Yost • Auditor of State

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

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

To the Board of Trustees:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the Western Guernsey Water District, Guernsey County, Ohio (the District), as of and for the years ended December 31, 2015 and 2014, and the related notes to the financial statements and have issued our report thereon dated November 2, 2016. We qualified our opinion on Inventories because we were unable to obtain sufficient appropriate audit evidence supporting the amounts recorded as Inventories.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all internal control deficiencies that might be material weaknesses or significant deficiencies. Therefore, unidentified material weaknesses or significant deficiencies may exist. We did identify a certain deficiency in internal control, described in the accompanying Schedule of Findings that we consider a material weakness. We consider finding 2015-002 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 an instance of noncompliance or other matters we must report under *Government Auditing Standards*, which is described in the accompanying Schedule of Findings as item 2015-001.

Purpose of this Report

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

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive, flowing style.

Dave Yost
Auditor of State
Columbus, Ohio

November 2, 2016

**WESTERN GUERNSEY REGIONAL WATER DISTRICT
GUERNSEY COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2015 AND 2014**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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FINDING NUMBER 2015-001

Noncompliance

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

According to Ohio Rev. Code § 5705.28(B)(2)(b), although a taxing unit that does not levy a tax is not a taxing unit for purposes for Ohio Rev. Code Chapter 5705, a water district is still required to follow Ohio Rev. Code §§ 5705.36, 5705.38, 5705.40, 5705.41, 5705.43, 5705.44 and 5705.45. These sections separately require the District to, in part: certify beginning balances on or about the first day of each fiscal year, certify revenue available for appropriation, adopt appropriations within available resources, certify the availability of funds prior to incurring obligations, and limit expenditures to appropriations for each fund. However, documents prepared in accordance with such sections are not required to be filed with the county auditor or county budget commission.

Concerning the prior certification of the availability of funds prior to incurring obligations, Ohio Rev. Code § 5705.41(D)(1) prohibits a subdivision or taxing authority from making any contract or ordering any expenditure of money unless a certificate signed by the fiscal officer is attached thereto. The fiscal officer must certify that the amount required to meet any such contract or expenditure has been lawfully appropriated and is in the treasury, or is in the process of collection to the credit of an appropriate fund free from any previous encumbrance. Further, contract and orders for expenditures lacking prior certification shall be null and void.

There are several exceptions to the standard requirement stated above that a fiscal officer's certificate must be obtained prior to a subdivision or taxing authority entering into a contract or order involving the expenditure of money. The main exceptions are: "then and now" certificates, blanket certificates, and super blanket certificates, which are provided for in § 5705.41(D)(1) and § 5705.41(D)(3), respectively, of the Ohio Revised Code.

Then and Now Certificates – If the fiscal officer can certify that both at the time that the contract or order was made ("then"), and at the time that the fiscal officer is completing the certification ("now"), that sufficient funds were available or in the process of collection, to the credit of a proper fund, properly appropriated and free from any previous encumbrance, the District can authorize the drawing of a warrant for the payment of the amount due. The District has thirty days from the receipt of the "then and now" certificate to approve payment by ordinance or resolution.

Amounts of less than \$3,000 may be paid by the fiscal officer without a resolution or ordinance of the District upon completion of the "then and now" certificate, provided that the expenditure is otherwise lawful. This does not eliminate any otherwise applicable requirement for approval of expenditures by the District.

**WESTERN GUERNSEY REGIONAL WATER DISTRICT
GUERNSEY COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2015 AND 2014
(Continued)**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)
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FINDING NUMBER 2015-001 (Continued)

Noncompliance – Ohio Rev. Code § 5705.28(B)(2)(a) (Continued)

Blanket Certificate – Fiscal officers may prepare “blanket” certificates for a certain sum of money not in excess of an amount established by resolution or ordinance adopted by a majority of the members of the legislative authority against any specific line item account over a period not running beyond the end of the current fiscal year. The blanket certificate may, but need not, be limited to a specific vendor. Only one blanket certificate may be outstanding at one particular time for any one particular line item appropriation.

Super Blanket Certificate – The District may also make expenditures and contracts for any amount from a specific line-item appropriation account in a specified fund upon certification of the fiscal officer for most professional services, fuel, oil, food items, and any other specific recurring and reasonably predictable operating expense. This certification is not to extend beyond the current year. More than one super blanket certificate may be outstanding at a particular time for any line-item appropriation.

The District did not comply with the aforementioned budgetary laws for the periods ended December 31, 2015 and 2014. The District did not pass appropriations; therefore, the District was unable to monitor operations via the control that budgeting provides.

The District’s accounting system did not allow for integration of budget information or encumbrances. Budgeted amounts of receipts and disbursements integrated into the District’s accounting system would allow for meaningful comparisons between the budgeted and actual figures.

We recommend the District pass appropriations and integrate the budgetary information in the accounting system.

Unless the exceptions noted above are used, prior certification is not only required by statute, but is a key control in the disbursement process to assure purchase commitments receive prior approval. To improve control over disbursements and to help reduce the possibility of the District’s funds exceeding budgetary spending limitations, the Fiscal Officer should certify the funds are or will be available prior to obligation by the District. When prior certification is not possible, “then and now” certification should be used.

We recommend the District certify purchases to which Ohio Rev. Code § 5705.41(D) applies. The most convenient certification method is to use purchase orders that include the certification language § 5705.41(D) requires to authorize disbursements. The Fiscal Officer should sign the certification at the time the District incurs a commitment, and only when the requirements of § 5705.41(D) are satisfied. The District should post approved purchase commitments to the proper appropriation code in the accounting system, to reduce the available appropriation.

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

FINDING NUMBER 2015-002

Material Weakness

All local public offices shall maintain an accounting system and accounting records sufficient to enable the public office to identify, assemble, classify, record and report its transactions, maintain accountability for the related assets, document compliance with finance-related legal and contractual requirements and prepare financial statements.

**WESTERN GUERNSEY REGIONAL WATER DISTRICT
GUERNSEY COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2015 AND 2014
(Continued)**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)
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FINDING NUMBER 2015-002 (Continued)

Material Weakness (Continued)

Amounts recorded for inventory at December 31, 2015 and 2014 were not adequately supported by the records maintained by the District. Also, the inventory policy did not include specific details regarding the policies and procedures to be followed for the recording of inventory. Inventory represented 16% and 17% of total current assets for 2015 and 2014, respectively.

We also noted that accounts receivable reported on the financial statements were understated by \$43,403 and \$6,655 in 2015 and 2014.

Not maintaining adequate documentation regarding inventory and failing to properly record all transactions could result in the financial statements being misleading. The significant adjustment for 2015 accounts receivable, to which management agreed, are reflected in the accompanying financial statements.

We recommend the District establish an inventory policy documenting proper procedures for the accounting method used to value inventory and the timing of and procedures used to perform the physical inventory count. We also recommend that all receivables be included when preparing year-end financial statements.

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

WESTERN GUERNSEY REGIONAL WATER DISTRICT
GUERNSEY COUNTY

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2015-2014

Finding Number	Finding Summary	Status	Additional Information
2013-001	Noncompliance under Ohio Rev. Code § 5705.28(B) and § 5705.41(D) – the District did not comply with budgetary laws.	Not Corrected	Repeated as Finding 2015-001.



Dave Yost • Auditor of State

WESTERN GUERNSEY REGIONAL WATER DISTRICT

GUERNSEY COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
NOVEMBER 29, 2016**