



**EARNHART HILL REGIONAL WATER AND SEWER DISTRICT
PICKAWAY COUNTY**

REGULAR AUDIT

FOR THE YEAR ENDED DECEMBER 31, 2016



Dave Yost • Auditor of State

**EARNHART HILL REGIONAL WATER AND SEWER DISTRICT
PICKAWAY COUNTY**

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Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT

Earnhart Hill Regional Water and Sewer District
Pickaway County
2030 Stoneridge Drive
Circleville, Ohio 43113

To the Board of Trustees:

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of Earnhart Hill Regional Water and Sewer District, Pickaway County, Ohio, as of December 31, 2016, and the respective changes in its financial position and its cash flows for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

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.

Prior Period Financial Statements Audited by a Predecessor Auditor

The financial statements of the Earnhart Hill Regional Water and Sewer District, Pickaway County, Ohio (the District), as of and for the year ended December 31, 2015, were audited by predecessor auditor whose report dated May 19, 2016 expressed an unmodified opinion on those statements.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated July 10, 2017, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.



Dave Yost
Auditor of State
Columbus, Ohio

July 10, 2017

Earnhart Hill Regional Water and Sewer District
Management's Discussion and Analysis
For the Years Ended December 31, 2016 and 2015
(Unaudited)

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

Financial Highlights

- The total assets and deferred outflows of resources of the District exceeded liabilities and deferred inflows of resources on December 31, 2016 and 2015 by \$17,628,695 and \$17,231,510, respectively. The District's net position increased by \$397,185 or 2% in 2016 and \$694,330 or 4% in 2015.
- The District's operating revenues increased by \$321,340 or 10% in 2016 and \$17,061 or 1% in 2015. Operating expenses increased \$350,278 or 12% in 2016 and \$40,196 or 1% in 2015.
- The District issued no additional long term debt in 2016 or 2015.

Overview of the Basic Financial Statements

The District is a single enterprise fund using proprietary fund accounting, similar to private sector business. The basic financial statements are presented using the accrual basis of accounting.

The statement of net position includes all of the District's assets, liabilities and deferred inflows/outflows of resources. This statement provides information about the nature and amounts of investments in resources (assets) owned by the District, and obligations owed by the District (liabilities) on December 31. The District's net position (equity) is the difference between assets plus deferred outflows of resources and liabilities plus deferred inflows of resources.

The statement of revenues, expenses and changes in net position provides information on the District's operations over the past year and the success of recovering all its costs through service charges, capacity charges and tap fees, and other income. Revenues are reported when earned and expenses are reported when incurred.

The statement of cash flows provides information about the District's cash receipts and cash disbursements. It summarizes the net changes in cash resulting from operating, investing, capital and related financing, and non-capital and related financing activities.

Net Position

Table 1 summarizes the net position of the District. Capital assets are reported less accumulated depreciation. "Net investment in capital assets" are capital assets less outstanding debt that was used to acquire those assets.

Earnhart Hill Regional Water and Sewer District
Management's Discussion and Analysis
For the Years Ended December 31, 2016 and 2015
(Unaudited)

Table 1

	2016	2015	Change	%	2014*	Change	%
Current & Other Assets	\$4,519,892	\$4,093,919	\$425,973	10%	\$4,304,377	(\$210,458)	-5%
Capital Assets, Net	23,224,754	23,366,185	(141,431)	-1%	23,738,592	(372,407)	-2%
Total Assets	27,744,646	27,460,104	284,542	1%	28,042,969	(582,865)	-2%
Deferred Outflows	562,382	150,501	411,881	274%	0	150,501	100%
Long-Term Liabilities	9,362,594	9,098,018	264,576	3%	9,578,219	(480,201)	-5%
Current & Other Liabilities	438,578	415,367	23,211	6%	405,125	10,242	3%
Total Liabilities	9,801,172	9,513,385	287,787	3%	9,983,344	(469,959)	-5%
Deferred Inflows	877,161	865,710	11,451	1%	851,715	13,995	2%
Net Position							
Net Investment in Capital Assets	15,732,984	15,667,888	65,096	0%	14,743,178	924,710	6%
Restricted	305,298	305,298	0	0%	411,993	(106,695)	-26%
Unrestricted	1,590,413	1,258,324	332,089	26%	2,052,739	(794,415)	-39%
Total Net Position	\$17,628,695	\$17,231,510	\$397,185	2%	\$17,207,910	\$23,600	0%

*Net position at January 1, 2015 was restated during 2015 due to the implementation of Governmental Accounting Standards Board Statement No. 68. Financial information for 2014 was not restated because information required to generate restatements for deferred inflows and outflows of resources for that year was not available.

The District's net position increased \$397,185 or 2% in 2016 and \$23,600 or less than 1% in 2015. These increases were a result of excess revenues over expenses. Restricted net position decreased in 2015 due to the pay-off of debt that required a restricted cash balance. Restricted net position did not change in 2016. Restricted net position is cash which is limited in use as part of the District's loan covenants. Net investment in capital assets increased by \$65,096 or less than 1% in 2016 due primarily to additions of capital assets and repayments of debt principal that were only partially offset by depreciation expense and disposals. Net investment in capital assets increased by \$924,710 or 6% in 2015 due primarily to additions of capital assets and repayments of debt principal that were only partially offset by depreciation expense. Unrestricted net position increased \$332,089 or 26% in 2016 due to increases in cash balances and deferred outflows of resources, which were only partially offset by an increase in net pension liability. Unrestricted net position decreased \$794,415 or 39% in 2015 due mainly to the recognition of net pension liability in 2015 as a result of the implementation of GASB Statement No. 68.

Earnhart Hill Regional Water and Sewer District
Management's Discussion and Analysis
For the Years Ended December 31, 2016 and 2015
(Unaudited)

Statement of Revenues, Expenses and Changes in Net Position

Table 2 summarizes the changes in revenues and expenses and the resulting changes in net position.

Table 2

	2016	2015	Change	%	2014*	Change	%
Operating Revenues	\$3,698,884	\$3,377,544	\$321,340	10%	\$3,360,483	\$17,061	1%
Total Operating Revenues	3,698,884	3,377,544	321,340	10%	3,360,483	17,061	1%
Treatment Expenses	292,010	215,995	76,015	35%	276,434	(60,439)	-22%
Power	235,946	210,823	25,123	12%	213,144	(2,321)	-1%
Distribution	708,445	663,343	45,102	7%	658,009	5,334	1%
Customer Accounting	300,572	293,036	7,536	3%	248,594	44,442	18%
Transportation	39,437	42,562	(3,125)	-7%	54,786	(12,224)	-22%
Fringe Benefits	446,889	321,072	125,817	39%	305,168	15,904	5%
Depreciation & Amortization	925,407	874,720	50,687	6%	887,874	(13,154)	-1%
Administration & General	389,877	366,754	23,123	6%	304,100	62,654	21%
Total Operating Expenses	3,338,583	2,988,305	350,278	12%	2,948,109	40,196	1%
Operating Income	360,301	389,239	(28,938)	-7%	412,374	(23,135)	-6%
Non-Operating Expenses	277,281	218,596	58,685	27%	785,039	(566,443)	-72%
Non-Operating Revenues	263,044	446,620	(183,576)	-41%	190,525	256,095	134%
Capital Contributions	51,121	77,067	(25,946)	-34%	695,558	(618,491)	-89%
Changes in Net Position	397,185	694,330	(297,145)	-43%	513,418	180,912	35%
Net Position at Beginning of Year	17,231,510	16,537,180	694,330	4%	16,694,492	N/A	N/A
Net Position at End of Year	\$17,628,695	\$17,231,510	\$397,185	2%	\$17,207,910	\$23,600	0%

*Net position at January 1, 2015 was restated during 2015 due to the implementation of Governmental Accounting Standards Board Statement No. 68. Financial information for 2014 was not restated because information required to generate restatements for deferred inflows and outflows of resources for that year was not available.

Operating revenues increased \$321,340 or 10% in 2016 and \$17,061 or 1% in 2015. The increase in 2016 was due to an increase in rates and in miscellaneous income. The change for 2015 was not significant. Capital contributions will fluctuate from year to year depending on construction activity, and improvement projects that may qualify for special assessment and/or grant monies. The District recorded \$51,121 and \$77,067 in capital contributions in 2016 and 2015, respectively. In 2016, the District received these funds due to the 5-year expiration of 3 line extension projects and a bureau of workers compensation grant. In 2015, the District received these funds due to the 5-year expiration of 3 line extension projects. Operating expenses, excluding depreciation, increased by \$299,591 or 14% in 2016 and \$53,350 or 3% in 2015. Increases of \$76,015 in treatment expenses and \$125,817 in fringe benefit expenses accounted for most of the increase in 2016. Increases of \$44,442 in customer accounting and \$62,654 in administrative and general expenses accounted for most of the increase in 2015. These increases were partially offset by a decrease of \$60,439 in treatment expenses.

Earnhart Hill Regional Water and Sewer District
Management's Discussion and Analysis
For the Years Ended December 31, 2016 and 2015
(Unaudited)

Capital Assets

Table 3 summarizes the changes in capital assets.

Table 3

	2016	2015	Change	%	2014	Change	%
Land	\$841,797	\$841,797	\$0	0%	\$841,797	\$0	0%
Buildings	1,234,731	1,207,183	27,548	2%	1,198,991	8,192	1%
Treatment Facilities	6,472,211	6,388,924	83,287	1%	6,262,716	126,208	2%
Transmission, Storage & Collection	24,042,089	23,959,284	82,805	0%	23,608,269	351,015	1%
Vehicles	367,926	337,155	30,771	9%	337,155	0	0%
Furniture & Equipment	569,597	490,172	79,425	16%	469,014	21,158	5%
Construction in Progress	656,111	233,910	422,201	180%	238,170	(4,260)	-2%
Total Before Depreciation	34,184,462	33,458,425	726,037	2%	32,956,112	502,313	2%
Accumulated Depreciation	(10,959,708)	(10,092,240)	(867,468)	9%	(9,217,520)	(874,720)	9%
Total Capital Assets, Net	\$23,224,754	\$23,366,185	(\$141,431)	-1%	\$23,738,592	(\$372,407)	-2%

Capital assets (before depreciation) increased \$726,037 or 2% in 2016 and increased \$502,313 or 2% in 2015. Total capital assets, net decreased \$141,431 or 1% in 2016 and \$372,407 or 2% in 2015. The decrease in 2016 is due to depreciation and disposals exceeding additions for the year. The decrease in 2015 is due to depreciation and deletions exceeding additions for the year. For additional information regarding capital assets, please see note 7 of the notes to the basic financial statements.

Debt

The District issues long term debt to finance much of its construction. Loans from USDA Rural Development, Ohio Water Development Authority, and Ohio Public Works Commission were used to finance most general improvement projects.

Table 4 summarizes the changes in long-term debt.

Table 4

	2016	2015	Change	%	2014	Change	%
Rural Development Loans	\$5,282,950	\$5,380,832	(\$97,882)	-2%	\$6,569,450	(\$1,188,618)	-18%
OWDA Loans	1,933,820	2,017,465	(83,645)	-4%	2,100,964	(83,499)	-4%
OPWC Loan	275,000	300,000	(25,000)	-8%	325,000	(25,000)	-8%
Rotary Commission Loan	821,966	821,966	0	0%	821,966	0	0%
Total Long-Term Debt	8,313,736	8,520,263	(206,527)	-2%	9,817,380	(1,297,117)	-13%
Less							
Current Maturities	210,398	206,375	4,023	2%	239,161	(32,786)	-14%
Net Total Long-Term Debt	\$8,103,338	\$8,313,888	(\$210,550)	-3%	\$9,578,219	(\$1,264,331)	-13%

Net long-term debt decreased by \$210,550 or 3% in 2016 due to scheduled principal payments. Net long-term debt decreased by \$1,264,331 or 13% in 2015 due to scheduled principal payments and the pay-off of one of the Rural Development loans in full. For additional information regarding debt, please see note 3 of the notes to the basic financial statements.

Earnhart Hill Regional Water and Sewer District
Management's Discussion and Analysis
For the Years Ended December 31, 2016 and 2015
(Unaudited)

Cash

Table 5 summarizes the changes in unrestricted and restricted cash and cash equivalents.

Table 5

	2016	2015	Change	%	2014	Change	%
Unrestricted Cash and Cash Equivalents	\$2,536,010	\$2,099,473	\$436,537	21%	\$2,218,317	(\$118,844)	-5%
Cash Restricted for Debt Service	305,298	305,298	0	0%	411,993	(106,695)	-26%
Total Cash	<u>\$2,841,308</u>	<u>\$2,404,771</u>	<u>\$436,537</u>	<u>18%</u>	<u>\$2,630,310</u>	<u>(\$225,539)</u>	<u>-9%</u>

Unrestricted cash and cash equivalents increased \$436,537 or 21% in 2016, due mainly to revenues in excess of expenses, and decreased \$118,844 or 5% in 2015, due mainly to the pay-off of a large Rural Development loan. Cash restricted for debt service remained the same between 2015 and 2016. Cash restricted for debt service decreased \$106,695 or 26% in 2015 due to the pay-off of a Rural Development loan that had a related debt covenant.

Current Financial Related Activities

In 2016, the District implemented a Water Facility Charge increase of \$1, a Sewer Facility Charge increase of \$1 (Circleville/Pickaway Township area), and a Sewer Facility Charge increase of 5.0% (Stoutsville/Tarlton area). In 2016, the District also implemented a Water Usage Charge increase of 4.5%, a Sewer Usage Charge increase of 5.0% (Circleville/Pickaway Township area), and a Sewer Usage Charge increase of 5.00% (Stoutsville/Tarlton area). Future rate adjustments are projected in the District's Ten Year Plan and are evaluated annually.

Contact Information

Questions regarding this report and requests for additional information should be forwarded to Dennis Williams, General Manager, Earnhart Hill Regional Water and Sewer District, PO Box 151, Circleville, Ohio 43113-0151 or (740) 474-3114.

Earnhart Hill Regional Water and Sewer District
Statements of Net Position
As of December 31, 2016 and 2015

	2016	2015
Current assets		
Cash and cash equivalents	\$2,536,010	\$2,099,473
Accounts receivable	468,998	443,660
Assessments receivable	1,069,857	1,103,914
Inventories	127,684	127,775
Prepaid expenses	12,045	13,799
<i>Total current assets</i>	4,214,594	3,788,621
Noncurrent assets		
Restricted assets:		
Cash and cash equivalents-debt service reserve	305,298	305,298
<i>Total restricted assets</i>	305,298	305,298
Capital assets		
Land and land easements	841,797	841,797
Buildings	1,234,731	1,207,183
Treatment facilities	6,472,211	6,388,924
Transmission, storage and collection	24,042,089	23,959,284
Vehicles	367,926	337,155
Furniture and equipment	569,597	490,172
Construction in progress	656,111	233,910
<i>Total capital assets</i>	34,184,462	33,458,425
Less: accumulated depreciation	(10,959,708)	(10,092,240)
<i>Capital assets, net</i>	23,224,754	23,366,185
<i>Total assets</i>	27,744,646	27,460,104
Deferred outflows of resources		
Pension	562,382	150,501
<i>Total deferred outflows of resources</i>	\$562,382	\$150,501

(continued)

Earnhart Hill Regional Water and Sewer District
Statements of Net Position (Continued)
As of December 31, 2016 and 2015

	2016	2015
Current liabilities		
Accounts payable	\$17,131	\$41,250
Prepaid taps and main line extensions	89,987	104,608
Customer deposits	24,250	24,575
Current portion of USDA revenue bonds payable	101,602	97,728
Current portion of OWDA loans payable	83,796	83,647
Current portion of OPWC loans payable	25,000	25,000
Accrued payroll	26,332	19,919
Intergovernmental payable	32,605	0
Retainage payable	19,624	0
Accrued interest payable	18,251	18,640
<i>Total current liabilities</i>	438,578	415,367
Long-term liabilities		
Revenue bonds payable USDA (net of current portion)	5,181,348	5,283,104
Loans payable OWDA (net of current portion)	1,850,024	1,933,818
Loans payable OPWC (net of current portion)	250,000	275,000
Notes payable Rotary Loan	821,966	821,966
Net pension liability	1,259,256	784,130
<i>Total long-term liabilities</i>	9,362,594	9,098,018
<i>Total liabilities</i>	9,801,172	9,513,385
Deferred inflows of resources		
Assessments-construction-agricultural	851,715	851,715
Pension	25,446	13,995
<i>Total deferred inflows of resources</i>	877,161	865,710
Net position		
Net investment in capital assets	15,732,984	15,667,888
Restricted for debt service	305,298	305,298
Unrestricted	1,590,413	1,258,324
<i>Total net position</i>	<u>\$17,628,695</u>	<u>\$17,231,510</u>

See accompanying notes to the basic financial statements.

Earnhart Hill Regional Water and Sewer District
Statements of Revenues, Expenses and Changes in Net Position
For the Years Ended December 31, 2016 and 2015

	2016	2015
Operating revenues		
Service charges	\$3,589,254	\$3,334,569
Other	109,630	42,975
<i>Total operating revenues</i>	3,698,884	3,377,544
Operating expenses		
Treatment expense	292,010	215,995
Power	235,946	210,823
Distribution	708,445	663,343
Customer accounting	300,572	293,036
Transportation	39,437	42,562
Fringe benefits	446,889	321,072
Depreciation and amortization	925,407	874,720
Administrative and general	389,877	366,754
<i>Total operating expenses</i>	3,338,583	2,988,305
<i>Operating income</i>	360,301	389,239
Nonoperating revenues (expenses)		
Capacity charges	160,150	335,330
Tap fee revenue	41,200	61,170
Interest income	29,030	27,839
Gain on sale of assets	10,075	0
Interest expense	(210,539)	(218,596)
Loss on disposal of assets	(66,742)	0
Rental income	22,589	22,281
<i>Net nonoperating revenues (expenses)</i>	(14,237)	228,024
<i>Changes in net position before capital contributions</i>	346,064	617,263
Capital Contributions-intergovernmental	40,000	0
Capital contributions-cash	11,121	77,067
<i>Total capital contributions</i>	51,121	77,067
<i>Changes in net position</i>	397,185	694,330
<i>Net position, beginning of year</i>	17,231,510	16,537,180
<i>Net position, end of year</i>	<u>\$17,628,695</u>	<u>\$17,231,510</u>

See accompanying notes to the basic financial statements.

Earnhart Hill Regional Water and Sewer District
Statements of Cash Flows
For the Years Ended December 31, 2016 and 2015

	2016	2015
Cash flows from operating activities		
Cash received from customers	\$3,563,916	\$3,299,301
Cash paid for employee salaries and benefits	(1,296,074)	(1,273,073)
Cash payments to suppliers for goods and services	(1,025,662)	(836,618)
Cash received from other receipts	109,630	42,975
<i>Net cash provided by operating activities</i>	1,351,810	1,232,585
Cash flows from noncapital and related financial activities		
Refundable line extensions	(14,621)	9,157
Deposits received (returned)	(325)	1,035
<i>Net cash provided by (used for) noncapital and related financing activities</i>	(14,946)	10,192
Cash flows from capital and related financing activities		
Tap fees	41,200	61,170
Capacity charges	160,150	335,330
Rental income	22,589	22,281
Revenue bond principal payments	(97,882)	(1,188,618)
Revenue bond interest payments	(206,953)	(220,808)
Loan principal payments	(108,645)	(108,499)
Loan interest payments	(3,976)	(4,124)
Special assessments received	34,057	32,359
Special assessment interest	16,701	19,000
Cash received for sale of assets	10,075	0
Proceeds from capital cash contributions	51,121	77,067
Capital outlay	(831,093)	(502,313)
<i>Net cash used for capital and related financing activities</i>	(912,656)	(1,477,155)
Cash flows from investing activities		
Interest on cash and cash equivalents	12,329	8,839
<i>Net increase (decrease) in cash and cash equivalents</i>	436,537	(225,539)
<i>Cash and cash equivalents, beginning of year</i>	2,404,771	2,630,310
<i>Cash and cash equivalents, end of year</i>	<u>\$2,841,308</u>	<u>\$2,404,771</u>

Non-Cash Transactions:

As of December 31, 2016, the District had retainage payable of 19,624 relating to a capitalized asset.

(continued)

Earnhart Hill Regional Water and Sewer District
Statements of Cash Flows (Continued)
For the Years Ended December 31, 2016 and 2015

	2016	2015
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$360,301	\$389,239
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	925,407	874,720
Changes in assets and liabilities:		
Decrease (increase) in accounts receivable	(25,338)	(35,268)
Decrease (increase) in inventories	91	(11,657)
Decrease (increase) in prepaid expenses	1,754	(515)
Increase (decrease) in accounts payable (trade only)	(24,119)	37,982
Increase (decrease) in accrued payroll	6,413	1,189
Increase (decrease) in intergovernmental payable	32,605	0
(Increase) decrease in deferred outflows of resources-pension	(411,881)	(54,811)
Increase (decrease) in deferred inflows of resources-pension	11,451	13,995
Increase (decrease) in net pension liability	475,126	17,711
<i>Total adjustments</i>	991,509	843,346
<i>Net cash provided by operating activities</i>	<u>\$1,351,810</u>	<u>\$1,232,585</u>

See accompanying notes to the basic financial statements.

Earnhart Hill Regional Water and Sewer District
Notes to the Basic Financial Statements
For the Years Ended December 31, 2016 and 2015

Note 1 – Nature of Organization and Reporting Entity

Earnhart Hill Regional Water and Sewer District (the District) was founded for the purpose of providing water and wastewater services to those areas in south central Ohio not served by other water companies. As of February 1, 1997, the previous company (Earnhart Hill Water District, Inc.) was declared by the Court to be duly organized regional water and sewer district, a political subdivision of the state of Ohio organized pursuant to Chapter 6119 of the Ohio Revised Code. The Court approved the Plan to the Operation of the District which provided that the District would accept a transfer of the assets, and assumes all of the liabilities of the Company as a part of its organization.

Reporting Entity

The reporting entity is comprised of the primary government, component units and other organizations that are included to ensure that the financial statements of the District are not misleading. The primary government consists of all funds, departments, boards and agencies that are not legally separate from the District. For Earnhart Hill Regional Water and Sewer District, there are no other boards and agencies other than the District.

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

Note 2 – Summary of Significant Accounting Policies

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

Basis of Presentation - Fund Accounting

The accounts of the District are organized on the basis of funds, each of which is considered a separate accounting entity. The District has created a single type of fund and a single fund within that fund type. The fund is accounted for by a separate set of self-balancing accounts that comprise its assets, liabilities, deferred inflows/outflows of resources, net position, revenues, and expenses.

This fund accounts for the resources allocated to it for the purpose of carrying on specific activities in accordance with laws, regulations or other restrictions.

The fund type that the District uses is described below:

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

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

Basis of Accounting

The accounting records are maintained on the accrual basis of accounting for financial reporting purposes.

Process

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

Appropriations – Budgetary expenditures (that is, disbursements and encumbrances) may not exceed appropriations at the legal level of control, and appropriations may not exceed estimated resources. For the District, the legal level of control is at the object level. The District must annually approve appropriation measures and subsequent amendments. Unencumbered appropriations lapse at year-end.

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

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

Revenue Recognition

Revenues for service fees are recorded in the period the service is provided. Revenue for tap fees are recorded when the taps have been installed and the customer is using the service. All other revenue is recognized when earned.

Accounts Receivable

Accounts receivable are presented at their net realizable value. Uncollectible account balances are certified to the County Auditor after administrative collection efforts have been exhausted.

Restricted Assets

As explained in Note 3, a restricted account was established for the required reserve for the Rural Development Loans and is recorded as a restricted asset in the accompanying basic financial statements.

Capital Assets

Capital assets are presented at cost or fair market value and are depreciated over the following estimated useful lives:

Buildings	15-30 years
Treatment Facilities	5-50 years
Transmission & Collections	10-50 years
Vehicles	3-10 years
Furniture & Equipment	3-20 years

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Depreciation is computed using the straight-line method for financial reporting purposes. Repairs and maintenance costs are charged to operations when incurred. Improvements and additions over \$5,000 are capitalized.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the District does not have any investments; so all cash balances are included in the statement of cash flows.

Interest Expense

Interest expense represents the interest portion of loan payments to the United States Department of Agriculture, Rural Development, and the Ohio Water Development Authority.

Interest Income

Interest income represents earnings from all of the District's bank accounts and interest earned on assessments.

Inventory of Supplies

Inventories are stated at the lower of cost or market. Cost is determined on a first-in, first-out basis. The costs of inventory items are recorded as expenses when used.

Prepaid Expenses

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

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 employer will compensate the employees for the benefits through paid time off or some other means. The amount of vacation leave liability was insignificant as of December 31, 2016 and 2015 and is not recorded in the accompanying basic financial statements. Sick leave benefits are not accrued as a liability as employees receive no payment for accrued sick leave upon termination or retirement.

Intergovernmental Payable

The District bills and collects sewer fees and penalties for the City of Circleville Sewer and Pickaway County Sewer. Intergovernmental payable represents those amounts collected on behalf of those districts but not yet paid as of December 31, 2016 and 2015. The District did not report any intergovernmental payables as of December 31, 2015.

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Net Position

Net position represents the difference between assets plus deferred outflows of resources and liabilities plus deferred inflows of resources. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvements of those assets. Net position is reported as restricted for debt service reserves as required by the Rural Development Loan requirements. The District applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available. None of the District's restricted net position as of December 31, 2016 and 2015 was restricted by enabling legislation.

Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the District, these revenues are fees and contract fee revenue for water and sewer services provided. Operating expenses are necessary costs incurred to provide the goods and/or services that are the primary activity of the fund. All revenues and expenses not meeting these definitions are recorded as non-operating revenues and expenses.

Capital Contributions

The District records capital contributions of capital assets or grants and other outside contributions restricted to capital acquisition and construction. During 2016 and 2015, the following capital contributions were received:

	<u>2016</u>	<u>2015</u>
Ohio Bureau of Workers Compensation Grant	\$40,000	\$0
Kingston Pike Line Extension	5,846	0
State Route 159 Line Extension	2,336	1,740
Morris Leist Road Line Extension	2,939	11,959
Pickaway Elementary Line Extension	0	63,368
Totals	<u>\$51,121</u>	<u>\$77,067</u>

Deferred Inflows and Outflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense) until then. The District has deferred outflows of resources related to pensions, which is further discussed in note 8.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The District has deferred inflows of resources related to special assessments and pensions. The \$851,715 balance of the deferred inflow of resources for assessments at December 31, 2016 and 2015 will be recognized as revenue and increase unrestricted net position only when those properties assessed no longer qualify for agricultural status, as defined in Ohio Revised Code Chapter 929, and as certified by the County Auditor. The time frame for collection is therefore undeterminable. Deferred inflows related to pensions will be further discussed in note 8.

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Pensions

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

Comparative Information

Comparative data for the prior year has been presented in the basic financial statements in order to provide an understanding of the changes in the District's financial position and operations. Such information includes sufficient detail to constitute a presentation in conformity with GAAP. Accordingly, such information should be read in conjunction with the District's basic financial statements for the year ended December 31, 2015, from which the comparative data was derived.

Estimates

The preparation of 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- Current and Long-Term Debt

Current and long term debts at December 31, 2016 are as follows:

	Payable To	Interest Rate	First Payment	Principal Term			
	Rural Development	4.250%	10/1/2003	39 yrs.			
	Rural Development	3.375%	12/1/2010	40 yrs.			
	OWDA	0.000%	6/1/2009	30 yrs.			
	OWDA	1.000%	1/1/2010	30 yrs.			
	OPWC	0.000%	1/1/2010	20 yrs.			

Loan #	Obligation	Interest Rate	Outstanding 12/31/2015	Additions	Deletions	Outstanding 12/31/2016	Due in One Year
91-06	Rural Development	4.250%	\$3,029,832	\$0	\$59,882	\$2,969,950	\$62,473
9210S	Rural Development	3.375%	2,351,000	0	38,000	2,313,000	39,129
4996	OWDA	0.000%	1,616,154	0	68,771	1,547,383	68,773
4839	OWDA	1.000%	401,311	0	14,874	386,437	15,023
CQ30H	OPWC	0.000%	300,000	0	25,000	275,000	25,000
	Rotary Loan	0.000%	821,966	0	0	821,966	0
	Net Pension Liability		784,130	475,126	0	1,259,256	0
			<u>\$9,304,393</u>	<u>\$475,126</u>	<u>\$206,527</u>	<u>\$9,572,992</u>	<u>\$210,398</u>

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Loan #	Obligation	Interest Rate	Outstanding 12/31/2014	Additions	Deletions	Outstanding 12/31/2015	Due in One Year
91-04	Rural Development	6.625%	\$1,094,223	\$0	\$1,094,223	\$0	\$0
91-06	Rural Development	4.250%	3,087,227	0	57,395	3,029,832	59,877
9210S	Rural Development	3.375%	2,388,000	0	37,000	2,351,000	37,851
4996	OWDA	0.000%	1,684,927	0	68,773	1,616,154	68,773
4839	OWDA	1.000%	416,037	0	14,726	401,311	14,874
CQ30H	OPWC	0.000%	325,000	0	25,000	300,000	25,000
	Rotary Loan	0.000%	821,966	0	0	821,966	0
	Net Pension Liability		766,419	17,711	0	784,130	0
			<u>\$10,583,799</u>	<u>\$17,711</u>	<u>\$1,297,117</u>	<u>\$9,304,393</u>	<u>\$206,375</u>

The debt listed with the United States Department of Agriculture, Rural Development is water system revenue bonds. The District is required to maintain a cash balance reserve to meet revenue bond requirements. This cash balance is reported as a restricted asset in the accompanying basic financial statements. The debt listed above with OWDA and OPWC are long-term loans. Principal and interest payments for Rural Development 91-06 debt are due on the 1st day of each month. Principal and interest payments for Rural Development 9210S are due on December 1 of each year. Principal payments for OWDA 4996 and OWDA 4839 are due on January 1 and July 1 of each year. Principal payments for OPWC CQ30H are due on January 31 and July 1 of each year.

Interest is calculated at the rates reflected above and payable for the terms described above. Future principal and interest payments on all debt are as follows:

Year	OWDA			OPWC		
	Principal	Interest	Total	Principal	Interest	Total
2017	\$83,796	\$3,826	\$87,622	\$25,000	\$0	\$25,000
2018	83,946	3,676	87,622	25,000	0	25,000
2019	84,098	3,524	87,622	25,000	0	25,000
2020	84,252	3,371	87,623	25,000	0	25,000
2021	84,407	3,215	87,622	25,000	0	25,000
2022-2026	424,417	13,694	438,111	125,000	0	125,000
2027-2031	428,536	9,575	438,111	25,000	0	25,000
2032-2036	432,866	5,245	438,111	0	0	0
2037-2039	227,502	977	228,479	0	0	0
Totals	<u>\$1,933,820</u>	<u>\$47,103</u>	<u>\$1,980,923</u>	<u>\$275,000</u>	<u>\$0</u>	<u>\$275,000</u>

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Year	Water System Revenue Bond		
	Principal	Interest	Total
2017	\$101,602	\$203,083	\$304,685
2018	105,629	199,056	304,685
2019	109,819	194,866	304,685
2020	114,178	190,508	304,686
2021	118,711	185,974	304,685
2022-2026	668,218	855,210	1,523,428
2027-2031	812,338	711,089	1,523,427
2032-2036	988,027	535,400	1,523,427
2037-2041	1,202,295	321,133	1,523,428
2042-2046	728,020	113,782	841,802
2047-2049	334,113	23,158	357,271
Totals	\$5,282,950	\$3,533,259	\$8,816,209

In connection with the Rural Development Bonds, OPWC, and OWDA loans listed above, the District has pledged future customer revenues, net of specified operating expenses, to repay this debt. Pledged revenues of a given year may also include specified portions of cash balances carried over from the prior year. The bonds payable, through their final maturities as listed above, solely from net revenues. Total interest and principal remaining to be paid on these bonds and loans is \$11,072,132. For the current year, net revenue available, principal and interest paid and the coverage ratio are as follows: \$1,285,708; \$417,456; and 0.32.

An \$821,966 long-term note is payable to the Water and Sewer Rotary Commission with no annual interest rate. The loan was obtained to enable the District to make debt service payments on OWDA loans while these properties remain in agricultural status. The term is in effect as long as the properties listed as agricultural status pertaining to this loan do not change. If such properties do not qualify as agricultural status, their assessment is collected by the District and payable to the Water and Sewer Rotary Commission within ten days after the status has changed. The agreement was originally entered into on June 6, 1995 by SCIPPO Sewer District but was absorbed by Earnhart Hill Regional Water & Sewer District when it purchased SCIPPO in June 2009. No amortization schedule is provided for this note. There were no payments due to the Water and Sewer Rotary Commission for the years ended December 31, 2016 and 2015.

Note 4 – Deposits With Financial Institutions – Legal Requirements

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

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

Interim deposits represent interim monies that are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Interim monies can be deposited or invested in the following securities:

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

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2. Bonds, notes, debentures, 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, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above, provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio; its political subdivisions, or other units or agencies of this State or its political subdivisions;
5. Time certificates of deposit or savings or deposit accounts, including, but not limited to, passbook accounts;
6. No-load money market mutual funds consisting exclusively of obligations described in divisions (1) and (2) of this footnote and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
7. The State Treasurer's investment pool (STAR Ohio);
8. Securities lending agreements in which the District lends securities and the eligible institution agrees to exchange either securities described in division (1) or (2), or cash, or both securities and cash, equal value for equal value;
9. High grade commercial paper in an amount not to exceed five percent of the District's total average portfolio; and
10. Banker's acceptances for a period not to exceed 270 days and in an amount not to exceed ten percent of the District's average portfolio.

Protection of the District's deposits is provided by the Federal Deposit Insurance Corporation (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 established by the financial institution to secure the repayment of all public monies deposited with the institution.

Investments in stripped principal or interest obligations, reverse repurchase agreements, and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage, and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the District, and must be purchased with the expectation that it will be held to maturity.

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

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. As of December 31, 2016 and 2015, \$250,000 and \$250,000 of the District's bank balances of \$2,871,482 and \$2,538,461 were covered by federal depository insurance. The remaining balances were covered by specific securities held by the pledging financial institution's trust department in the District's name and therefore, not subject to custodial credit risk. Although all State statutory requirements for the deposit of money have been followed, non-compliance with federal requirements could potentially subject the District to a successful claim by the FDIC.

The District has no deposit policy for custodial risk beyond the requirements of State statute. Ohio law requires that deposits be either 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.

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Note 5 – Accounts Receivable

The following are accounts receivable balances presented by aging classifications as of December 31, 2016 and 2015:

	2016	2015
Current receivables (0-30 days)	\$317,471	\$304,462
Delinquent receivables (31-60 days)	44,424	33,307
Delinquent receivables (over 60 days)	39,452	45,912
Total accounts receivable	\$401,347	\$383,681

As of December 31, 2016 and 2015, the District also had miscellaneous receivables totaling \$67,651 and \$59,979, respectively.

Note 6 – Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors and omissions; injuries to employees; and natural disasters. During 2016 and 2015, the District contracted with Rinehart, Walters, Danner Insurance and the Ohio Plan for liability, property, and related insurance. Coverages provided by the program as of December 31 are as follows:

	2016	2015
General Liability	\$5,000,000 per occurrence \$7,000,000 aggregate	\$5,000,000 per occurrence \$7,000,000 aggregate
Public Officials Liability	\$5,000,000 per occurrence \$7,000,000 aggregate	\$5,000,000 per occurrence \$7,000,000 aggregate
Automobile Liability	\$5,000,000	\$5,000,000
Property, Boiler & Machinery	\$12,277,110	\$12,095,673
Inland Marine	\$309,601	\$294,725
Electronic Media	\$159,337	\$156,982
Faithful Performance & Employee Bond	\$425,000	\$425,000

There has been no significant reduction in coverage from the prior year. There have been no claims that exceed commercial insurance coverage during the past three years.

Medical Mutual of Ohio provided health insurance during 2016 and 2015. Workers' compensation benefits are provided through the State Bureau of Workers' Compensation.

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Note 7 – Capital Assets

Capital assets activity for the years ended December 31, 2016 and 2015 was as follows:

	Ending Balance 12/31/15	Additions	Deletions	Ending Balance 12/31/16
<i>Capital Assets, Not Being Depreciated</i>				
Land and Land Easements	\$841,797	\$0	\$0	\$841,797
Construction in Progress	233,910	679,776	(257,575)	656,111
<i>Total Capital Assets, Not Being Depreciated</i>	1,075,707	679,776	(257,575)	1,497,908
<i>Capital Assets Being Depreciated</i>				
Buildings	1,207,183	42,509	(14,961)	1,234,731
Treatment Facilities	6,388,924	173,394	(90,107)	6,472,211
Transmission & Storage & Collection	23,959,284	83,573	(768)	24,042,089
Vehicles	337,155	50,383	(19,612)	367,926
Furniture and Equipment	490,172	79,425	0	569,597
<i>Total Capital Assets, Being Depreciated</i>	32,382,718	429,284	(125,448)	32,686,554
<i>Less Accumulated Depreciation:</i>				
Buildings	(610,944)	(46,024)	14,961	(642,007)
Treatment Facilities	(2,559,944)	(221,646)	22,495	(2,759,095)
Transmission & Storage & Collection	(6,322,253)	(584,891)	768	(6,906,376)
Vehicles	(219,399)	(47,543)	19,612	(247,330)
Furniture and Equipment	(379,700)	(25,200)	0	(404,900)
<i>Total Capital Assets Being Depreciated, Net</i>	(10,092,240)	(925,304)	57,836	(10,959,708)
<i>Total Capital Assets, Net</i>	\$23,366,185	\$183,756	(\$325,187)	\$23,224,754

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	Ending Balance 12/31/14	Additions	Deletions	Ending Balance 12/31/15
<i>Capital Assets, Not Being Depreciated</i>				
Land and Land Easements	\$841,797	\$0	\$0	\$841,797
Construction in Progress	238,170	445,140	(449,400)	233,910
<i>Total Capital Assets, Not Being Depreciated</i>	1,079,967	445,140	(449,400)	1,075,707
<i>Capital Assets Being Depreciated</i>				
Buildings	1,198,991	8,192	0	1,207,183
Treatment Facilities	6,262,716	126,208	0	6,388,924
Transmission & Storage & Collection	23,608,269	351,015	0	23,959,284
Vehicles	337,155	0	0	337,155
Furniture and Equipment	469,014	21,158	0	490,172
<i>Total Capital Assets, Being Depreciated</i>	31,876,145	506,573	0	32,382,718
<i>Less Accumulated Depreciation:</i>				
Buildings	(566,417)	(44,527)	0	(610,944)
Treatment Facilities	(2,348,139)	(211,805)	0	(2,559,944)
Transmission & Storage & Collection	(5,773,032)	(549,221)	0	(6,322,253)
Vehicles	(172,625)	(46,774)	0	(219,399)
Furniture and Equipment	(357,307)	(22,393)	0	(379,700)
<i>Total Capital Assets Being Depreciated, Net</i>	(9,217,520)	(874,720)	0	(10,092,240)
<i>Total Capital Assets, Net</i>	\$23,738,592	\$76,993	(\$449,400)	\$23,366,185

Note 8 – Defined Benefit Retirement Plan

Net Pension Liability

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

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

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.

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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 plan to amortize unfunded liabilities within 30 years. If the amortization period exceeds 30 years, the 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 the 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 that may be obtained by visiting <https://www.opers.org/financial/reports.shtml>, by writing to the Ohio Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642, or by calling 800-222-7377.

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

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

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

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

Earnhart Hill Regional Water and Sewer District
Notes to the Basic Financial Statements
For the Years Ended December 31, 2016 and 2015

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
<i>2016 and 2015 Statutory Maximum Contribution Rates</i>	
Employer	14.0 %
Employee	10.0 %
 <i>2016 and 2015 Actual Contribution Rates</i>	
Employer:	
Pension	12.0 %
Post-Employment Health Care Benefits	2.0
Total Employer	14.0 %
Employee	10.0 %

Employer contribution rates are actuarially determined and are expressed as a percentage of covered payroll.

The District's contractually required contributions were \$120,593 and \$108,662 for 2016 and 2015, respectively.

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

The net pension liabilities for OPERS were measured as of December 31, 2015 and 2014, respectively, and the total pension liabilities used to calculate the net pension liabilities were determined by an actuarial valuation as of those dates. The District's proportion of the net pension liabilities were based on the District's share of contributions to the pension plan relative to the contributions of all participating entities. The following is information related to the proportionate share and pension expense:

	2016	2015
Proportionate Share of the Net Pension Liability	\$1,259,256	\$784,130
Proportion of the Net Pension Liability	0.007270%	0.006501%
Pension Expense	\$195,289	\$85,557

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

Earnhart Hill Regional Water and Sewer District
Notes to the Basic Financial Statements
For the Years Ended December 31, 2016 and 2015

	2016	2015
<i>Deferred Outflows of Resources</i>		
Net difference between projected and actual earnings on pension plan investments	\$370,142	\$41,839
Changes in proportion and differences between District contributions and proportionate share of contributions	71,647	0
District contributions subsequent to the measurement date	120,593	108,662
Total Deferred Outflows of Resources	\$562,382	\$150,501
 <i>Deferred Inflows of Resources</i>		
Differences between expected and actual experience	\$24,331	\$13,995
Changes in proportion and differences between District contributions and proportionate share of contributions	1,115	0
Total Deferred Inflows of Resources	\$25,446	\$13,995

\$120,593 and \$108,662 reported as deferred outflows of resources related to pension resulting from District contributions subsequent to the measurement date as of December 31, 2016 and 2015, respectively, will be recognized as a reduction of the net pension liability in the years ending December 31, 2017 and 2016, respectively. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension for the year ended December 31, 2016 will be recognized in pension expense as follows:

Year Ending December 31:	
2017	\$98,365
2018	104,283
2019	112,061
2020	101,634
Total	\$416,343

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 in the December 31, 2015 and 2014 actuarial valuations were determined using the following actuarial assumptions, applied to all periods included in the measurement:

Wage Inflation		3.75 percent
Future Salary Increases, including inflation	4.25 to 10.05 percent including wage inflation	
COLA or Ad Hoc COLA		3 percent, simple
Investment Rate of Return		8 percent
Actuarial Cost Method		Individual Entry Age

Earnhart Hill Regional Water and Sewer District
Notes to the Basic Financial Statements
For the Years Ended December 31, 2016 and 2015

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 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 rates of return, net of investments expense, for the Defined Benefit portfolio are 0.4 percent and 6.95 percent for 2015 and 2014, respectively.

The allocation of investment assets with the Defined Benefit portfolio is approved by the Board of Trustees as outlined in the annual investment plan. Plan assets are managed on a total return basis with a long-term objective of achieving and maintaining a fully funded status for the benefits provided through the defined benefit pension plans. The table below displays the Board-approved asset allocation policy for 2015 and the long-term expected real rates of return:

<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	20.70	5.84
Real Estate	10.00	4.25
Private Equity	10.00	9.25
International Equities	18.30	7.40
Other investments	18.00	4.59
Total	<u>100.00 %</u>	<u>5.27 %</u>

The table below displays the Board-approved asset allocation policy for 2014 and the long-term expected real rates of return:

Earnhart Hill Regional Water and Sewer District
Notes to the Basic Financial Statements
For the Years Ended December 31, 2016 and 2015

Asset Class	Target Allocation	Weighted Average Long-Term Expected Real Rate of Return (Arithmetic)
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 as of the measurement date December 31, 2015 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:

	1% Decrease (7.00%)	Current Discount Rate (8.00%)	1% Increase (9.00%)
District's proportionate share of the net pension liability	\$2,006,302	\$1,259,256	\$629,146

The following table presents the District's proportionate share of the net pension liability calculated as of the measurement date December 31, 2014 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:

	1% Decrease (7.00%)	Current Discount Rate (8.00%)	1% Increase (9.00%)
District's proportionate share of the net pension liability	\$1,442,575	\$784,130	\$229,561

Changes Between Measurement Date and Report Date

In October 2016, the OPERS Board adopted certain assumption changes which will impact their annual actuarial valuation prepared as of December 31, 2016. The most significant change is a reduction in the discount rate from 8.0 percent to 7.5 percent. Although the exact amount of these changes is not known, the impact to the Government's net pension liability is expected to be significant.

Earnhart Hill Regional Water and Sewer District
Notes to the Basic Financial Statements
For the Years Ended December 31, 2016 and 2015

Note 9 – Postemployment Benefits

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.

In March 2016, OPERS received two favorable rulings from the Internal Revenue Service (IRS) allowing OPERS to consolidate all health care assets into the OPERS 115 Health Care Trust. Transition to the new health care trust structure was completed July 1, 2016. As of December 31, 2016, 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. Members of the Member-Directed Plan do not qualify for ancillary benefits, including OPERS sponsored health care coverage. OPERS funds a Retiree Medical Account (RMA) for participants in the Member-Directed Plan. At retirement or refund, participants can be reimbursed for qualified medical expenses from their vested RMA balance.

In order to qualify for 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 Post Employment Benefit (OPEB) as described in GASB Statement 45. Please see the Plan Statement in the OPERS 2015 CAFR for details.

The Ohio Revised Code permits, but does not require, OPERS to provide health care to its eligible benefit recipients. Authority to establish and amend benefits is provided to the OPERS board of Trustees (OPERS Board) 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#CAFR>, by writing to OPERS, 277 East Town Street, Columbus OH 43215-4642, or by calling 614-222-5601 or 800-222-7377.

Funding Policy

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

Employer contribution rates are expressed as a percentage of the earnable salary of active members. In 2016 and 2015, state and local employers contributed at a rate of 14.00% of earnable salary. These are the maximum employer contribution rates permitted by the Ohio Revised Code. Active members 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 2.0% during calendar years 2016 and 2015. As recommended by OPERS' actuary, the portion of employer contributions allocated to health care beginning January 1, 2017 decreased to 1.0% 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 into the RMA for participants in the Member-Directed Plan for 2016 was 4.0%.

Earnhart Hill Regional Water and Sewer District
Notes to the Basic Financial Statements
For the Years Ended December 31, 2016 and 2015

The employer contributions that were used to fund postemployment benefits for the years ended December 2016, 2015, 2014 were \$20,099, \$18,110, and \$15,948, respectfully. All required contributions have been made for each year.

Note 10 – Budget

Budgetary activity for the years ended December 31, 2016 and 2015 follows:

Budgeted vs. Actual Receipts

	2016	2015
Budgeted Receipts	\$3,957,000	\$3,681,700
Actual Receipts	4,021,768	3,908,514
Variance	\$64,768	\$226,814

Budgeted vs. Actual Budgetary Basis Expenditures

	2016	2015
Appropriation Authority	\$5,697,526	\$5,929,556
Budgetary Expenditures	4,525,176	5,048,923
Variance	\$1,172,350	\$880,633

Note 11 – Pending Litigation

The District’s general legal counsel is Bricker & Eckler, LLP, Columbus, Ohio.

There was no material litigation pending or outstanding as of December 31, 2016 that management believes might have a significant effect on the accompanying financial statements.

Note 12 – Federal Financial Assistance

The District received \$0 in financial assistance in 2016 and 2015.

Note 13 – Assessments Receivable

The details for the years ended December 31, 2016 and 2015 are as follows:

		Principal Collected From	Ending Receivable	Percent Collected
Construction Assessments	Total Assessment	Prepays and Auditor	Balance	
2016	\$2,102,001	\$1,032,144	\$1,069,857	49.1%
2015	2,102,001	998,087	1,103,914	47.5%

The assessment receivable balance at December 31, 2016 and 2015 includes deferred agricultural property construction assessments of \$851,715. This amount is recorded as a deferred inflow of resource in the accompanying financial statements and will be collected when the properties no longer qualify for agricultural property status, as defined in the Ohio Revised Code Chapter 929, and as certified by the County Auditor. The time frame for collection is undeterminable.

Earnhart Hill Regional Water and Sewer District
Notes to the Basic Financial Statements
For the Years Ended December 31, 2016 and 2015

Note 14 – Information by Division

The District maintains two divisions which provide water and sewer services. Information by division for the year ended December 31, 2016 and 2015 follows:

2016			
	Division		Total
	Water	Sewer	
Operating revenues	\$2,792,693	\$906,191	\$3,698,884
Operating expenses, before depreciation	1,851,729	561,447	2,413,176
Depreciation	616,865	308,542	925,407
Operating Income	324,099	36,202	360,301
Nonoperating revenues	277,090	37,075	314,165
Nonoperating expenses	127,113	150,168	277,281
Net Income (Loss)	\$474,076	(\$76,891)	\$397,185

2015			
	Division		Total
	Water	Sewer	
Operating revenues	\$2,543,322	\$834,222	\$3,377,544
Operating expenses, before depreciation	1,610,824	502,761	2,113,585
Depreciation	578,802	295,918	874,720
Operating Income	353,696	35,543	389,239
Nonoperating revenues	410,907	112,780	523,687
Nonoperating expenses	133,776	84,820	218,596
Net Income	\$630,827	\$63,503	\$694,330

Note 15 – Subsequent Event

In June of 2017, the District entered into a loan with the USDA Rural Development to upgrade the River Drive Waste Water Treatment Plant. The loan is for \$4,950,000, with an interest rate of 2.75% for 40 years, with an expected project completion date of May 2019.

Note 16 – Implementation of New Accounting Pronouncements

For 2016, the District implemented Governmental Accounting Standards Board (GASB) Statement No. GASB Statement No. 76, “The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments,” and GASB Statement No. 82, “Pension Issues an Amendment of GASB Statements No. 67, No. 68 and No. 73.”

GASB Statement No. 76 identifies-in the context of the current governmental financial reporting environment-the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with generally accepted accounting principles (GAAP) and the framework for selecting those principles. The implementation of this GASB pronouncement did not result in any changes to the District's financial statements.

GASB Statement No. 82 improves consistency in the application of pension accounting. These changes were incorporated in the District's 2016 financial statements; however, there was no effect on beginning net position.

Earnhart Hill Regional Water and Sewer District
Required Supplementary Information
Schedule of District's Proportionate Share of the Net Pension Liability
Last Three Years (1)

	2014	2015	2016
<i>Ohio Public Employees Retirement System</i>			
District's proportion of the net pension liability	0.006501%	0.006501%	0.007270%
District's proportionate share of the net pension liability	\$766,419	\$784,130	\$1,259,256
District's covered-employee payroll	\$741,432	\$797,417	\$905,517
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	103.37%	98.33%	139.06%
Plan fiduciary net position as a percentage of the total pension liability	86.36%	86.45%	81.08%

The amounts presented for each year were determined as of December 31 of the previous year, which is the District's measurement date.

(1) Information not available prior to 2014.

Earnhart Hill Regional Water and Sewer District
Required Supplementary Information
Schedule of District Contributions
Last Ten Years

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
<i>Ohio Public Employees Retirement System</i>										
Contractually required contribution	\$49,305	\$42,506	\$49,462	\$57,488	\$67,735	\$68,539	\$96,386	\$95,690	\$108,662	\$120,593
Contributions in relation to the contractually required contribution	49,305	42,506	49,462	57,488	67,735	68,539	96,386	95,690	108,662	120,593
Contribution deficiency (excess)	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
District's covered-employee payroll	\$590,474	\$607,222	\$608,760	\$644,730	\$677,352	\$685,387	\$741,432	\$797,417	\$905,517	\$1,004,942
Contributions as a percentage of covered-employee payroll	8.35%	7.00%	8.13%	8.92%	10.00%	10.00%	13.00%	12.00%	12.00%	12.00%

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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*

Earnhart Hill Regional Water and Sewer District
Pickaway County
2030 Stoneridge Drive
Circleville, Ohio 43113

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 Earnhart Hill Regional Water and Sewer District, Pickaway County, Ohio (the District) as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated July 10, 2017, wherein we noted the basic financial statements as of December 31, 2015 were audited by a predecessor auditor whose report dated May 19, 2016 expressed an unmodified opinion on those statements.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

88 East Broad Street, Tenth Floor, Columbus, Ohio 43215-3506
Phone: 614-466-3402 or 800-443-9275

www.ohioauditor.gov

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 style with a large, looping "D" and "Y".

Dave Yost
Auditor of State
Columbus, Ohio

July 10, 2017



Dave Yost • Auditor of State

EARNHART HILL REGIONAL WATER AND SEWER DISTRICT

WAYNE 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
AUGUST 31, 2017**