



Dave Yost • Auditor of State

**ADAMS COUNTY REGIONAL WATER DISTRICT
ADAMS COUNTY**

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INDEPENDENT AUDITOR'S REPORT

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

To the Board of Trustees:

Report on the Financial Statements

We have audited the accompanying financial statements of the Adams County Regional Water District, Adams County, Ohio (the District), as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require 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 May 7, 2018, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. 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

May 7, 2018

Adams County Regional Water District

Management's Discussion and Analysis

The following discussion provides a summary overview of the financial activities of the Adams County Regional Water District ("the District") for the year ended December 31, 2017. The information should be read in conjunction with the basic financial statements included in this report.

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

Financial Highlights

- Assets exceeded liabilities by \$8,122,152 and \$7,750,592 as of December 31, 2017 and 2016 respectively.
- Net positions increased by \$644,313 and \$557,662 in 2017 and 2016 respectively.
- Operating revenues increased by \$161,429 (4%) and by \$6,409 (1.60%) and operating and maintenance expenses decreased by \$48,796 (1.3%) and increased by \$184,797 (5.30%) in 2017 and 2016 respectively.
- Retirement of debt principal totaled \$797,269 and \$754,378 for 2017 and 2016 respectively and additions to debt principal totaled \$91,826 for 2017 and \$36,096 for 2016.

Overview of the Financial Statements

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

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

Adams County Regional Water District

Management's Discussion and Analysis

Overview of the Financial Statements (Continued)

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

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

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

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

The tables below provide a summary of the District's financial position and operations for 2017 and 2016 respectively.

Table 1

	<u>2017</u>	<u>2016</u>
<u>Assets</u>		
Current & other assets	\$ 7,234,546	\$ 6,484,937
Capital assets, net	11,682,468	12,292,133
Deferred Outflows	606,661	347,333
Total assets/outflows	<u>19,523,675</u>	<u>19,124,403</u>
<u>Liabilities</u>		
Current & other liabilities	2,978,394	2,466,368
Long-term debt	7,816,469	8,560,110
Deferred Inflows	9,406	22,832
Total liabilities/inflows	<u>10,804,269</u>	<u>11,049,310</u>
<u>Net Position</u>		
Invested in capital assets, net of related debt	3,031,432	2,935,654
Restricted for debt service	154,105	152,731
Unrestricted	5,533,869	4,986,708
Total net position	<u>\$ 8,719,406</u>	<u>\$ 8,075,093</u>

Adams County Regional Water District

Management's Discussion and Analysis

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

As noted earlier, the net position may serve as a useful indicator of financial position. The District's assets exceeded liabilities by \$8,122,151 as of December 31, 2017 compared to \$750,592 as of December 31, 2016. The net investment in capital assets as of December 31, 2017 was \$3,031,432 in comparison to \$2,935,654 as of December 31, 2016.

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

For the year ended December 31, 2017 and 2016 respectively, total assets of the District increased by \$139,944 and decreased by \$177,378 due to capital assets and depreciation. Total liabilities as of December 31, 2017 and 2016 decreased by \$231,615 and \$384,228 respectfully due mainly to retirement of debt and adjustments to the net pension liability per GASB 68 guidelines.

The following table summarizes the changes in revenues and expenses for the District between 2017 and 2016:

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

	<u>2017</u>	<u>2016</u>
<u>Operating revenue</u>		
Sales to customers	\$ 3,204,950	\$ 3,062,127
Sales to public authorities	825,721	769,357
Other revenues	132,538	170,295
Total operating revenue	<u>4,163,209</u>	<u>4,001,779</u>
<u>Non-operating revenue</u>		
Tap fee revenue	72,800	57,950
Grant revenue	251,565	324,893
Interest income	43,485	42,704
Insurance Proceeds	5,854	23,692
Principal forgiveness revenue	-0-	28,188
Total non-operating revenue	<u>373,704</u>	<u>477,427</u>
Total revenue	4,536,913	4,479,206
<u>Operating expenses</u>		
Operations	1,899,224	1,910,136
Maintenance	234,652	304,975
Depreciation	1,488,534	1,456,095
Total operating expenses	<u>3,622,410</u>	<u>3,671,206</u>

Adams County Regional Water District

Management's Discussion and Analysis

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

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

	<u>2017</u>	<u>2016</u>
<u>Non-operating expense</u>		
Interest expense	\$ 279,866	\$ 240,316
Loss on disposal of assets	\$ -0-	\$ 10,022
Total non-operating expenses	<u>279,866</u>	<u>250,338</u>
Total expenses	<u>3,902,276</u>	<u>3,921,544</u>
<u>Income (Loss) before contributions</u>	634,636	557,662
Capital contributions	<u>9,677</u>	<u>-</u>
Change in net position	<u>\$ 644,313</u>	<u>\$ 557,662</u>

Operating revenues consist of user charges for water consumption. Operating expenses reflect the cost of providing these services. For the year ended December 31, 2017:

- Operating revenue increased \$161,429 (4%) and \$6,409 (1.69%) in 2017 and 2016 respectively.
- Non-operating revenues decreased by \$103,723 (21.70%) and \$241,017 (33.54%) due to a decrease in grant revenue in 2017 and 2016 respectively.
- Operating expenses decreased by \$48,796 (1.30%) and increased by \$166,999 (4.77%) due to an increase and decrease in salaries, utilities, repairs, pension and insurance in 2017 and 2016 respectively. Total expenses decreased by \$19,268 (.50%) and by \$48,021 (1.20%) in 2017 and 2016 respectively.

Capital contributions from customers increased by \$9,677 (100%) and decreased by \$4,992 (100%) in 2017 and 2016 respectively. These contributions are provided by customers and grants from various agencies and are used to help cover the costs of line extensions.

Adams County Regional Water District

Management's Discussion and Analysis

Capital Assets

As of December 31, 2017 and 2016 respectively, the District had \$11,682,468 and \$12,292,133 invested in capital assets. This amount represents a net decrease of \$619,211 (5%) in 2017 and \$821,964 (6.27%) 2016.

Table 3
Capital Assets
December 31,

	<u>2017</u>	<u>2016</u>
Land and improvements	\$ 875,186	875,186
Construction in progress	547,191	370,763
Buildings	673,120	659,480
Wells and wellfield improvements	1,769,726	1,713,743
Mains, lines and meters	29,665,814	29,611,690
Storage tanks	3,094,093	2,625,070
Water treatment & other equipment	2,001,637	1,891,966
Less: Accumulated depreciation	<u>(26,944,299)</u>	<u>(25,455,765)</u>
Totals	<u>\$ 11,682,468</u>	<u>12,292,133</u>
Major additions in 2017 and 2016 at cost included:		
Camera system upgrade/WTP	-0-	20,206
Betty's Creek/Peach Mtn Waterline	-0-	670,625
Rickey Rd Line Extension	-0-	12,894
HP Proliant Server	-0-	11,275
Peach Mountain Tank	-0-	192,615
2016 Chevrolet Utility Truck	-0-	26,635
2016 Chevrolet Silverado K150	-0-	31,534
Telemetry – Louisville Tank	15,640	-0-
Louisville Storage Tank	460,028	-0-
2018 Chevrolet Equinox	23,529	0-
2018 K2500 Chevy Truck	30,530	-0-
Kubota RTV	12,904	-0-
Generac Generator	12,500	-0-
Pitless Adapters Phase IV	<u>50,282</u>	<u>-0-</u>
Totals	<u>\$ 605,413</u>	<u>\$ 965,784</u>

Adams County Regional Water District

Management's Discussion and Analysis

Debt Administration

The District finances its construction primarily through the issuance of revenue bonds or through low interest loan programs with the State of Ohio. At December 31, 2017, the District had total debt outstanding of \$8,651,036 compared to \$9,356,479 at December 31, 2016. This represents a net decrease in 2017 of \$705,444 and 2016 of \$718,281 due to principal payments on debt.

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

Economic Factors for 2017 and Budget for 2018

Adams County Regional Water District increased water rates in March of 2017. The minimum bill was raised to \$21.00 for the first 1000 gallons and \$7.00 per thousand thereafter for a 5/8" tap. Larger-sized taps increased proportionately. Wholesale rates increased to \$3.55 per thousand in July of 2017.

The number of water taps sold by the District remained minimal as in the last few years. A total of fifty-six taps were sold in 2017. No major line extensions were constructed during the year. The District anticipates selling approximately forty taps in 2018.

Improvements made in the District during 2017 included small line extensions on Lask Road, Gray Road, Vinson Lane, State Route 781, and Steam Furnace Road. Upgrades were made to the District's camera and security system at the water treatment plant, as well as the purchase of a digital scale. A service truck and an all-terrain vehicle were purchased for the distribution crew and an SUV was purchased for office use. Phase IV of the pitless adapter well field project was installed. Improvements were made to various buildings, including a shed renovation and a new gate opener at the water treatment plant and new solar panels at the Tater Ridge pit.

The construction of a water storage tank in the Louisville Road area was begun in 2016 and was completed in 2017. Funding for this project was an Appalachian Regional Commission grant, an Ohio Public Works Commission grant/loan combination, and a loan through the Water Supply Revolving Loan Account from Ohio EPA. This storage tank will be able to keep the north central part of the county supplied with water during water outages in the area.

The District bid and awarded a project in the Locust Grove area in 2017 which replaced existing water lines in an area plagued with water leaks. The funding for this project was a grant from the Ohio Public Works Commission and with the remainder provided with District funds.

Adams County Regional Water District

Management's Discussion and Analysis

Economic Factors for 2017 and Budget for 2018 (Continued)

The operating budget for 2018 is \$3,967,600. Capital improvements scheduled for 2018 include the installation of more cameras for the water treatment plant and other improvements on the District's existing buildings, the purchase of an all-terrain vehicle for the water treatment plant use, the purchase of miscellaneous pieces of equipment for use in the distribution system and water treatment plant, as well as maintenance on some of the District's pumps and water storage tanks. Small tools and office equipment will be purchased as needed.

Two projects were bid in late 2017 and will be constructed in 2018. The US 52 Water Line Replacement project will replace approximately 2,700 feet of line along US 52 where leaks frequently occur. The other project is Miscellaneous Water Line Extensions serving several portions of the county where residents are not currently being served and/or to connect existing lines. Funding for these projects will be a combination of grants and loans.

Contacting the District's Financial Management

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

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ADAMS COUNTY REGIONAL WATER DISTRICT
STATEMENT OF NET POSITION
FOR THE YEAR ENDED DECEMBER 31, 2017

ASSETS

Current assets:

Cash and cash equivalents	\$	3,417,929
Certificates of deposit		2,396,982
Accounts receivable		
Customers, net of allowance for doubtful accounts of \$11,201		668,493
Other receivables		3,511
Accrued interest receivable		112,267
Inventories		435,611
Prepaid expenses		45,648
Total current assets		7,080,441

Non current assets:

Restricted cash and certificates of deposit		154,105
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Capital assets (at cost):

Non depreciable capital assets		
Land		788,396
Construction in progress		547,191
Total non depreciable assets		1,335,586

Depreciable capital assets

Land improvements	86,790
Buildings	673,120
Wells and wellfield improvements	1,769,726
Mains, lines and meters	29,665,814
Storage tanks	3,094,093
Water treatment and plant equipment	558,003
Trucks, tractors and radio equipment	1,301,050
Office furniture and equipment	142,584
Less: accumulated depreciation	(26,944,299)
Total depreciable capital assets	10,346,882
Total capital assets (net of depreciation)	11,682,468
Total non current assets	11,836,573

Total assets **\$ 18,917,014**

DEFERRED OUTFLOWS OF RESOURCES

Deferred outflow for net diff between projected and actual earnings		488,201
Deferred pension contributions		118,460
Total deferred outflows of resources		606,661

ADAMS COUNTY REGIONAL WATER DISTRICT
STATEMENT OF NET POSITION
FOR THE YEAR ENDED DECEMBER 31, 2017

	<u>2017</u>
LIABILITIES	
Current liabilities:	
Accounts payable	\$ 151,135
Accrued expenses	256,637
Accrued interest	132,307
Current portion of long-term debt	838,827
Customer deposits	<u>23,250</u>
Total current liabilities	1,402,156
Non current liabilities:	
Net pension liability	1,580,498
Long-term debt, less current portion	<u>7,812,209</u>
Total non current liabilities	9,392,707
Total liabilities	<u>10,794,863</u>
DEFERRED INFLOWS OF RESOURCES	
Deferred inflow for diff between expected and actual experience	<u>9,406</u>
Total deferred inflows of resources	9,406
NET POSITION	
Net investment in capital assets	3,031,432
Restricted for debt service	154,105
Unrestricted net position	<u>5,533,869</u>
Total net position	<u>\$ 8,719,406</u>

The notes to the financial statements are an integral part of this statement.

ADAMS COUNTY REGIONAL WATER DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEAR ENDED DECEMBER 31, 2017

OPERATING REVENUES

Sales to customers	\$	3,204,950
Sales to public authorities		825,721
Other revenues		132,538
Total operating revenues		4,163,208

OPERATING EXPENSES

Salaries	821,478
Utilities	312,880
Depreciation expense	1,488,534
Repairs	202,692
Truck expense	31,960
Supplies	55,744
Pension expense	266,970
Payroll taxes	19,948
Insurance - other than health	46,369
Insurance - health & life	219,665
Office supplies and postage	37,212
Legal and engineering fees	3,450
Accounting fees	24,008
Director fees	33,600
Advertising	1,792
Bank charges	1,762
Bad debt expense	255
Other expenses	54,093
Total operating expenses	3,622,412

OPERATING INCOME (LOSS) 540,796

NON OPERATING REVENUES (EXPENSES)

Grant revenue	251,566
Interest income	43,485
Interest expense	(279,865)
Insurance proceeds	5,854
Total non operating revenues (expenses)	21,041

INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS 561,837

CAPITAL CONTRIBUTIONS

Contributions revenue	9,677
Tap fees	72,800
Total capital contributions	82,477

ADAMS COUNTY REGIONAL WATER DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEAR ENDED DECEMBER 31, 2017

INCREASE (DECREASE) IN NET POSITION	644,313
NET POSITION	
Beginning of year	8,075,093
End of Year	<u>\$ 8,719,406</u>

The notes to the financial statements are integral part of this statement.

ADAMS COUNTY REGIONAL WATER DISTRICT
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2017

CASH FLOWS FROM OPERATING ACTIVITIES	
Cash receipts from customers	\$ 4,075,133
Cash payments to employees for services	(821,478)
Cash payments to suppliers for goods and services	(1,224,403)
Cash inflow/outflow of resources - pensions	<u>126,088</u>
Net Cash provided by Operating Activities	2,155,340
 CASH FLOWS FROM INVESTING ACTIVITIES	
Interest income on investments	<u>27,621</u>
Net Cash Provided by Investing Activities	27,621
 CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Acquisition of operating facilities, including construction in progress and capitalized interest	(878,869)
Members' tap fees	72,800
Borrowings on long term obligations	91,826
Insurance proceeds	5,854
Grant revenue	251,565
Payments on long term debt obligations	(797,269)
Proceeds from construction contributions	9,677
Interest paid on long term debt obligations	<u>(291,495)</u>
Net Cash Used in Capital and Related Financing Activities	<u>(1,535,910)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	647,050
CASH AND CASH EQUIVALENTS - Beginning of period	<u>5,321,966</u>
CASH AND CASH EQUIVALENTS - End of period	<u>\$ 5,969,016</u>

The notes to the financial statements are an integral part of this statement.

**ADAMS COUNTY REGIONAL WATER DISTRICT
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2017**

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

Operating Income	\$ 540,796
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	1,488,534
Changes in assets and liabilities:	
Accounts receivable, customers and other	(88,075)
Inventories	2,689
Prepaid expenses	(1,307)
Deferred outflows of resources - pensions	(259,328)
Net pension liability	398,842
Accounts payable and other accrued expenses	86,615
Deferred inflows of resources - pensions	(13,426)
Net Cash Provided by Operating Activities	<u><u>\$ 2,155,340</u></u>

The notes to the financial statements are an integral part of this statement.

**ADAMS COUNTY REGIONAL WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017**

Note 1. DESCRIPTION OF ENTITY

(a) Description of Operations

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

(b) Reporting Entity

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

Note 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Presentation and Accounting

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

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

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

**ADAMS COUNTY REGIONAL WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017**

Note 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(a) Basis of Presentation and Accounting (Continued)

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

(b) Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the District's net position of the pension plans and additions to/deductions from the District's net position have been determined on the same basis as they are reported by the pension systems. For this purpose, deductions are recorded when the liability is incurred and revenues are recognized when earned. Pension benefit payments are due the first day of the month following the retirement of a member, and the first of each month thereafter. Refunds, for any member who makes a written application to withdraw his/her contributions, are payable three months after termination of the member's OPERS-covered employment (updated in law in 2017 to two months). Benefits and refunds are recognized when due and payable in accordance with the terms of the plan. Additions to the pension plans consist of contributions (member and employer), other contracts and receipts, interplan activities, net investment income, and other miscellaneous income measurable pursuant to formal commitments, statutory and contractual requirements. Accordingly, both member and employer contributions for the year ended December 31, 2016 include year-end accruals based upon estimates derived from subsequent payment activity and historical payment patterns. Member and employer contributions are due 30 days after the month in which the salaries are earned and based on pay period end date. Plan changes, settlement activity and other interplan activity are recorded as an addition or deduction based on the nature of the transaction, when the transaction occurs. Investment purchases and sales are recorded as the trade date and generally reported at fair value.

Note 3. ASSETS, LIABILITIES AND NET POSITION

(a) Cash and Cash Equivalents

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

**ADAMS COUNTY REGIONAL WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017**

Note 3. ASSETS, LIABILITIES AND NET POSITION (Continued)

(b) Inventories

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

(c) Capital Assets

Capital assets are stated at cost. Construction period interest is capitalized as part of construction costs. During the years ended December 31, 2017 and 2016, the District capitalized \$17,446 and \$8,915 interest respectively. Depreciation is calculated on the straight-line method over the estimated useful lives of the assets. Maintenance and repairs are expensed as incurred; major renewals and betterments, over a \$1,000 threshold, are capitalized.

(d) Depreciation

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

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

(e) Estimates

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

(f) Customer Accounts Receivable

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

**ADAMS COUNTY REGIONAL WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017**

Note 3. ASSETS, LIABILITIES AND NET POSITION (Continued)

(g) Operating Revenues and Expenses

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

(h) Net Position

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

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

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

Unrestricted net position – This component of net position consists of net assets that do not meet the definition of "restricted" or "net investment in capital assets." of the District's \$154,105 in restricted net position, none were restricted by enabling legislation.

(i) Investments and Investment Policy

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

**ADAMS COUNTY REGIONAL WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017**

Note 3. ASSETS, LIABILITIES AND NET POSITION (Continued)

(i) Investments and Investment Policy (Continued)

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

Note 4. RESTRICTED CASH AND CERTIFICATES OF DEPOSIT

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

Note 5. LONG-TERM DEBT

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

During 2012, the United States Department of Agriculture Rural Development reviewed the District's debt and requested that the District use some reserve funds to pay off the set of water revenue refunding bonds with the interest rate of 6.5%, due to the high interest rate of the bonds and the low interest rate on

**ADAMS COUNTY REGIONAL WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017**

Note 5. LONG-TERM DEBT (Continued)

certificates of deposit. After reviewing the set of bonds, the Board of Trustees agreed and authorized a final payment of \$139,196 on November 19, 2012. This early extinguishment of debt will save approximately \$53,000 in interest over the next 11 years.

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

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

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

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

**ADAMS COUNTY REGIONAL WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017**

Note 5. LONG-TERM DEBT (Continued)

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

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

The annual debt service requirements to maturity, including principal and interest for long-term debt as of December 31, 2017, are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	838,775	405,544	1,244,319
2019	861,398	364,378	1,225,776
2020	826,914	321,920	1,148,834
2021	868,079	280,787	1,148,866
2022	911,632	237,296	1,148,928
2023-2027	3,432,250	492,923	3,925,173
2028-2032	232,877	74,014	306,891
2033-2037	235,326	54,915	290,241
2038-2042	206,293	36,587	242,880
2043-2047	153,564	18,960	172,524
2048-2050	<u>83,926</u>	<u>3938</u>	<u>87,864</u>
Total	<u>\$ 8,651,034</u>	<u>\$2,291,262</u>	<u>\$10,942,296</u>

**ADAMS COUNTY REGIONAL WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017**

Note 5. LONG-TERM DEBT (Continued)

The following is a summary of changes in long-term debt for the year ended December 31, 2017:

	Balance 12/31/2016	Additions	Principal Payments	Balance 12/31/2017	Due Within One Year
1999 water revenue refunding bonds R-3/R-4	246,800	-	84,500	162,300	89,100
2011 water resource revenue bond R-91-10	664,500	-	12,900	651,600	13,200
N/P OWDA, semiannual installments of \$342,839, #3287	5,009,826	-	371,390	4,638,436	395,501
N/P OWDA, semiannual installments of \$66,981, #2598	981,367	-	114,335	867,032	116,621
N/P OWDA, semiannual installments of \$54,013, #3127	673,604	-	68,553	605,051	72,570
N/P OWDA, semiannual installments of \$25,260, #2138	338,543	-	32,137	306,406	33,949
N/P OWDA, semiannual installments of \$53,061, #2599	821,822	-	89,686	732,136	91,480
N/P OWDA, semiannual installments of \$1,591, #3600	16,244	-	2,375	13,869	2,499
N/P OPW, semiannual installments of \$2,895, #91-04	144,762	-	5,791	138,971	5,791
N/P OWDA, semiannual installments of \$6,581, #6405	248,267	-	7,133	241,134	7,268
N/P OWDA, semiannual installments of \$5,529, #6950	188,309	-	8,470	179,839	8,588
N/P OWDA, semiannual, installments of \$298.10, #7402 1/1/18 1st pmt	8,655	2,043	-	10,698	534
N/P OPW, semiannual installments of \$1726.06, #CO03S 7/1/18 1st pmt	13,781	89,783	-	103,564	1,726
	<u>9,356,480</u>	<u>91,826</u>	<u>797,270</u>	<u>8,651,036</u>	<u>838,827</u>

**ADAMS COUNTY REGIONAL WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017**

Note 5. LONG-TERM DEBT (Continued)

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

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

Bond indentures contain significant requirements for debt reserve and flow of funds through restricted accounts. The District is required to accumulate over a ten year period a reserve balance equal to one annual installment including principal and interest. The reserve balance at December 31, 2017 and 2016 was \$154,105 and \$152,731 respectively. This amount equaled the required reserve.

Note 6. CONTRIBUTIONS IN AID OF CONSTRUCTION

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

Note 7. EQUITY IN POOLED CASH AND CASH EQUIVALENTS

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

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

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

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

**ADAMS COUNTY REGIONAL WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017**

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

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

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

**ADAMS COUNTY REGIONAL WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017**

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

10. Bankers acceptances for a period not to exceed 270 days and in an amount not to exceed ten percent of the District's average portfolio.

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

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

Investments may only be made through specified dealers and institutions.

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

Cash on Hand: At December 31, 2017 and 2016, the District had \$187 and \$111 respectively, in undeposited cash on hand which is included on the statement of net position of the District as part of "cash and cash equivalents".

Deposits: Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The District's policy for deposits is any balance not covered by depository insurance will be collateralized by the financial institutions with pledged securities. The District is required to categorize deposits and investments according to GASB Statement No. 3, *Deposits with Financial Institutions, Investments, and Reverse Repurchase Agreements*. The bank balances of the District's deposits at December 31, 2017 and 2016 were \$5,968,829 and \$5,321,855 respectively.

Of the bank balances at December 31, 2017 and 2016, all were covered either by federal depository insurance or collateral held by the pledging bank's trust department but not in the District's name pursuant to Section 135.181 Ohio Revised Code, in collateral pools securing all public funds on deposit with specific depository institutions.

**ADAMS COUNTY REGIONAL WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017**

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

Although the pledging bank has an investment and securities pool used to collateralize all public deposits, which are held in the financial institution's name, noncompliance with federal requirements could potentially subject the District to a successful claim by the FDIC. The deposits not covered by federal depository insurance are considered uninsured and uncollateralized under the provisions of GASB Statement No. 3 and subject to custodial credit risk.

Concentration of Credit Risk: Concentration of credit risk is the risk of loss attributed to the magnitude of the government's investments in a single issuer. The District's investment policy does not address concentration of credit risk.

Note 8. PENSION BENEFITS

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

- (a) Ohio Public Employees Retirement System (OPERS) administers three separate pension plans as described below:
1. The Traditional Pension Plan-a cost sharing, multiple-employer defined benefit pension plan.
 2. The Member-Directed Plan-a defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20% per year). Under the Member-Directed Plan, members accumulate retirement assets equal to the value of member and (vested) employer contributions plus any investment earnings.
 3. The Combined Plan-a cost sharing, multiple-employer defined benefit pension plan. Under the Combined Plan, OPERS invests employer contributions to provide a formula retirement benefit similar in nature to, but less than, the Traditional Pension Plan benefit. Member contributions, the investment of which is self-directed by the members, accumulate retirement assets in a manner similar to the Member-Directed Plan.
- (b) OPERS provides retirement, disability, survivor and death benefits and annual cost-of living adjustments to members of the Traditional Pension and Combined Plans. Members of the Member-Directed Plan do not qualify for

**ADAMS COUNTY REGIONAL WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017**

Note 8. PENSION BENEFITS (Continued)

ancillary benefits.

- (c) Authority to establish and amend benefits is provided in Chapter 145 of the Ohio Revised Code.
- (d) OPERS issues a stand-alone financial report. Interested parties may obtain a copy by visiting <https://www.opers.org/investments/cafr.shtml>, by writing to OPERS, 277 East Town Street, Columbus, OH 43215-4642, or by calling 614-222-5601 or 800-222-7377.
- (e) The Ohio Revised Code provides statutory authority for member and employer contributions. For 2017, member and employer contribution rates were consistent across all three plans. While members in the state and local divisions may participate in all three plans, law enforcement and public safety officers participate in only the Traditional Pension Plan.
- (f) The 2017 member contribution rates were 10.00% of earnable salary for members in state and local classifications. Public safety and law enforcement members contributed 12.00% and 13.00% respectively.
- (g) The 2017 employer contribution rate for state and local employers was 14.00% of earnable salary. The law enforcement and public safety division, employer contribution rate was 18.10% of earnable salary.
- (h) The District contributed \$118,376 and \$125,953 to the plan for 2017 and 2016 respectively.

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

**ADAMS COUNTY REGIONAL WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017**

Note 8. PENSION BENEFITS (Continued)

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

At December 31, 2017, the District reported a liability of \$1,580,498 for its proportionate share of the net pension liability. The net pension liability was measured as of December 31, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating districts, actuarially determined. At December 31, 2016, the District's proportion was .006960%. See table below:

Net Pension Liability/(Asset)	Traditional Plan
Total Pension Liability	\$6,947,354
Plan Fiduciary Net Position	<u>5,366,856</u>
Employer's Net Pension Liability/(Asset)	<u>\$1,580,498</u>

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

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employers and plan members) and include the types of benefits provided at the time of each valuation. The total pension liability was determined by an actuarial valuation as of December 31, 2016, using the following actuarial assumptions applied to all prior periods included in the measurement in accordance with the requirements of GASB 67. In 2016, the OPERS Board's actuarial consultants conducted an experience study for the period 2011 through 2015, comparing assumptions to actual results. The experience study incorporates both a historical review and forward-looking projections to determine the appropriate set of assumptions to keep the plan on a path toward full funding. Information from this study led to

**ADAMS COUNTY REGIONAL WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017**

Note 8. PENSION BENEFITS (Continued)

changes in both demographic and economic assumptions, with the most notable being a reduction in the actuarially assumed rate of return from 8.0% down to 7.5%, for the defined benefit investments. Key methods and assumptions used in the latest actuarial valuation, reflecting experience study results, are presented below:

Valuation Date	December 31, 2016
Experience Study	5-Yr Pd - Ended December 31, 2015
Actuarial Cost Method	Individual entry age
Actuarial Assumptions	-
Investment Rate of Return	7.50%
Wage Inflation	3.25%
Projected Salary Increases	3.25% - 10.75% (includes wage inflation at 3.25%)
Cost-of-Living Adjustments	Pre-1/7/2013 Retirees: 3.00% Simple Post-1/7/2013 Retirees: 3.00% Simple through 2018, then 2.15% Simple

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

The discount rate used to measure the OPERS total pension liability was 7.5%, post-experience study results, for the Traditional Pension Plan, Combined Plan and Member-Directed Plan. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and those of the contributing employers are made at the contractually required rates, as actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments for both the Traditional Pension Plan, Combined Plan and Member-Directed Plan was applied to all periods of projected benefit payments to determine the total pension liability.

**ADAMS COUNTY REGIONAL WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017**

Note 8. PENSION BENEFITS (Continued)

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

Sensitivity of Net Pension Liability/(Asset) to Changes in the Discount Rate			
District's Proportionate Share of The Net Pension Liability/(Asset) As of December 31, 2016	1% Decrease 6.5%	Current Discount Rate 7.5%	1% Increase 8.5%
Traditional Pension Plan	\$2,414,565	\$1,580,498	\$ 885,450

The allocation of investment assets within the Defined Benefit portfolio is approved by the OPERS Board as outlined in the annual investment plan. Plan assets are managed on a total return basis with a long-term objective of achieving and maintaining a fully funded status for the benefits provided through the defined benefit pension plans. The following table displays the OPERS Board-approved asset allocation policy for 2016 and the long-term expected real rates of return:

Asset Class	Target Allocation For 2016	Weighted Average Long-Term Expected Real Rate of Return
Fixed Income	23.00%	2.75%
Domestic Equities	20.70	6.34
Real Estate	10.00	4.75
Private Equity	10.00	8.97
International Equities	18.30	7.95
Other Investments	18.00	4.92
TOTAL	100.00%	5.66%

The long term expected rate of return on defined benefit investment assets was determined using a building-block method in which best-estimate ranges of expected future real rates of return are developed for each major asset class.

**ADAMS COUNTY REGIONAL WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017**

Note 8. PENSION BENEFITS (Continued)

These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage, adjusted for inflation.

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

Average Remaining Service Life: GASB 68 requires that changes arising from differences between expected and actual experience or from changes in actuarial assumptions be recognized in pension expense over the average remaining service life of all employees provided with benefits through the pension plan (active and inactive). This is to consider these differences on a pooled basis, rather than an individual basis, to reflect the expected remaining service life of the entire pool of employees with the understanding that inactive employees have no remaining service period. As of December 31, 2016, the average of the expected remaining service lives of all employees calculated by our external actuaries for the Traditional Pension Plan was 3.0856 years, for the Combined Plan was 9.1304 years, and for the Member-Directed Plan was 9.5420 years. Employers should use these amounts when calculating elements of pension expense subject to amortization requirements as defined in GASB 68 and reported in the Schedule of Collective Pension Amounts.

**ADAMS COUNTY REGIONAL WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017**

Note 8. PENSION BENEFITS (Continued)

Deferred Inflows and Deferred Outflows: As noted in OPERS Schedule of Collective Pension Amounts, the deferred inflows and outflows do not include the layer of amortization that is recognized in current year pension expense and represents the balances of deferred amounts as of December 31, 2016. The table below discloses the original amounts of the deferred inflows and outflows, calculated by OPERS external actuaries and then applying the District's proportionate share percentage, and the current year amortization on those amounts included in pension as of and for the year ended December 31, 2016. This information is included to assist with tracking the amortization tiers for each year to be recognized in future pension expense:

Deferred Inflows/(Outflows)	Total Deferred Inflows/(Outflows) Arising in Current Reporting Period	2016 Amortization Period	First Year of Amortization Recognized in Pension Expense	Balance of 2016 Deferred Inflows/(Outflows) in Current Reporting Period
Difference Between Expected and Actual Experience	(\$3,169)	3.0856 years	(\$1,027)	(\$2,142)
Assumption Changes	(\$370,885)	3.0856 years	(\$120,198)	(\$250,686)
Net Difference Between Projected and Actual Investment Earnings on Pension Plan Investments	\$34,497	5 years	\$6,899	\$27,597

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

**ADAMS COUNTY REGIONAL WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017**

Note 8. PENSION BENEFITS (Continued)

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

Year Ending December 31	Traditional Pension Plan Net Deferred Inflows/(Outflows) of Resources
2017	(\$197,494)
2018	(\$204,530)
2019	(\$83,670)
2020	\$6,899
2021	-
Thereafter	-
Total	(\$478,795)

Additional Financial and Actuarial Information: Additional information supporting the preparation of OPERS Schedules of Collective Pension Amounts and Employer Allocations (including the disclosure of the net pension liability/(asset), required supplementary information on the net pension liability/(asset), and the unmodified audit opinion on the combined financial statements) is located in OPERS 2016 CAFR. This CAFR is available at www.opers.org or by contacting OPERS at: OPERS, 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (800) 222-7377.

Note 9. POST-EMPLOYMENT BENEFITS

Statement 45 of the Governmental Accounting Standards Board (GASB), *Accounting and Financial Reporting by Employers for Post-employment Benefits other than Pension*, establishes standards for disclosure of information on post-employment benefits other than pension benefits by all State and Local government employers.

(a) Plan Description

Ohio Public Employees Retirement System (OPERS) administers three separate pension plans: The Traditional Pension Plan—a cost-sharing, multiple-

**ADAMS COUNTY REGIONAL WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017**

Note 9. POST-EMPLOYMENT BENEFITS (Continued)

employer defined benefit pension plan; the Member-Directed Plan-a defined contribution plan; and the Combined Plan-a cost sharing multiple-employer defined benefit pension plan that has elements of both a defined benefit and defined contribution plan.

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

In order to qualify for 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 2016 CAFR for details.

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

(b) Funding Policy

The 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 OPERS health care plans.

**ADAMS COUNTY REGIONAL WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017**

Note 9. POST-EMPLOYMENT BENEFITS (Continued)

Employer contribution rates are expressed as a percentage of the earnable salary of active members. In 2017, State and Local employers contributed at a rate of 14.0% of earnable salary and Public Safety and Law Enforcement employers contributed at 18.1%. These are the maximum employer contribution rates permitted by the Ohio Revised Code. Active member contributions do not fund health care.

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

(c) Information from Employer's Records

The total employer contribution rate, in Section B, is the statutorily required contribution rates for OPERS. As part of this disclosure, it will be necessary for the employer to disclose the employer contributions actually made to fund health care. The portion of your employer contributions used to fund health care can be approximated by multiplying actual employer contributions for calendar year 2017 by 0.0714 for State and Local employers, and 0.0552 for Law Enforcement and Public Safety employers.

(d) District Contributions

The district's contributions to OPERS to fund post-employment benefits ending 2017 and 2016 were \$16,916 and \$17,868 respectively.

Note 10. TERMINATION BENEFITS

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

**ADAMS COUNTY REGIONAL WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017**

Note 11. CAPITAL ASSETS

The balance of capital assets at December 31, 2017 consists of the following:

	<u>Balance 12/31/2016</u>	<u>Additions</u>	<u>Dispositions</u>	<u>Balance 12/31/2017</u>
Land and land improvements	\$ 875,186	\$ -	\$ -	\$ 875,186
Accumulated depreciation	(47,677)	(3,926)		(51,603)
Buildings	659,480	13,640		673,120
Accumulated depreciation	(414,636)	(24,611)		(439,247)
Wells and wellfield improve- Ments	1,713,743	55,983	-	1,769,726
Accumulated depreciation	(1,403,252)	(45,537)		(1,448,789)
Mains, lines and meters	29,611,690	54,124		29,665,814
Accumulated depreciation	(20,437,779)	(1,238,441)	-	(21,676,220)
Storage tanks	2,625,070	469,023		3,094,093
Accumulated depreciation	(1,755,781)	(70,608)	-	(1,826,389)
Water treatment and plant equipment	556,325	1,678	-	558,003
Accumulated depreciation	(331,325)	(27,924)	-	(359,249)
Trucks, tractors and radio equipment	1,195,775	105,275	-	1,301,050
Accumulated depreciation	(950,167)	(71,824)	-	(1,021,991)
Office furniture and equipment	139,865	2,719	-	142,584
Accumulated depreciation	(115,147)	(5,663)	-	(120,810)
Construction in progress	370,763	709,732	(533,304)	547,191
Total	<u>\$ 12,292,133</u>	<u>\$ (76,360)</u>	<u>\$ (533,304)</u>	<u>\$ 11,682,469</u>

Note 12. COMPENSATED ABSENCES

Full-time, permanent employees of the District are granted vacation benefits in varying amounts based on specified maximums depending on tenure with the District. Sick leave accrues to all employees to specified maximums. Upon termination, employees are entitled to one-half of unused sick hours up to 75 days and all accrued vacation leave. Accrued compensated absences, included in accrued expenses, as of December 31, 2017 and 2016 were \$236,011 and \$234,851 respectively.

Note 13. ECONOMIC DEPENDENCY

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

**ADAMS COUNTY REGIONAL WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017**

Note 14. RISK MANAGEMENT

The District is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, errors and omissions, inquiries to employees and natural disasters. Significant risk of losses is covered by commercial insurance.

Note 15. CONTINGENCIES

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

Note 16. ADVERTISING COSTS

The District expenses advertising costs as incurred. Advertising expenses amounted to \$1,792 and \$2,713 in 2017 and 2016 respectively.

Note 17. SUBSEQUENT EVENTS

GASB Statement 75 guidelines will bring a number of changes beginning 2018. The guideline changes will require that employers record the full amount of retiree benefits except pensions on their balance sheets. This change is meant to create greater transparency and provide standardization of record keeping.

The result of this change is that employer balance sheets may reflect a larger liability amount for health care costs which could make some employers look weaker financially.

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

	2017	2016	2015	2014
District's Proportion of the Net Pension Liability	0.006960%	0.006822%	0.006785%	0.006785%
District's Proportionate Share of the Net Pension Liability	\$ 1,580,498	\$ 1,181,656	\$ 818,347	\$ 799,863
District's Covered-Employee Payroll	\$ 846,143	\$ 899,664	\$ 831,824	\$ 817,787
District's Proportionate Share of the Net Pension Liability as a Percentage of its Covered-Employee Payroll	186.79%	131.34%	98.38%	97.81%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	77.25%	81.00%	86.45%	86.36%

Notes to Schedule

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

(2) Information prior to 2014 is not available.

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

	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Contractually required contributions	\$ 118,460	\$ 125,953	\$ 118,875	\$ 116,455	\$ 114,490	\$ 120,882	\$ 120,170	\$ 115,728	\$ 111,077	\$ 109,921
Contributions in relation to the Contractually required contributions	118,460	125,953	118,875	116,455	114,490	120,882	120,170	115,728	111,077	109,921
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Covered-employee payroll	\$ 846,143	\$ 899,664	\$ 849,109	\$ 831,824	\$ 817,787	\$ 863,442	\$ 856,357	\$ 826,631	\$ 793,405	\$ 784,884
Contributions as a percentage of Covered-employee payroll	14.00%	14.00%	14.00%	14.00%	14.00%	14.00%	14.00%	14.00%	14.00%	14.00%

Notes to Schedule

Valuation date:
The actuarial information presented is based on the System's most current actuarial valuation data as of December 31, 2016.

Methods and assumptions used to determine contribution rates:

- Actuarial cost method
 - Amortization method
 - Remaining amortization period
 - Asset valuation method
 - Wage inflation
 - Projected salary increases
 - Price inflation
 - Investment rate of return
 - Retirement age
 - Mortality
- Individual Entry Age
Level percentage of payroll contributions
21
- For actuarial purposes, the Funding Value of Defined Benefit Assets recognizes assumed investment returns fully each year. Differences between actual and assumed investment returns are phased in over a closed four-year period. The funding value is not permitted to deviate from market value by more than 12%.
- 3.75%
4.25-10.05%, average, including inflation
3.0%
8.0%, net of administrative expenses, including inflation
- Senate Bill 343 was enacted into law with an effective date of January 7, 2013. In the legislation, members were categorized into three groups with varying provisions of the law applicable to each group. These groups are broken down in the tables listed on pages 149-156 of the OPERS 2014 CAFR Report. The tables used in evaluation age-and-service and survivor benefit allowances to be paid were based on the RP-2000 mortality table projected 20 years using Projection Scale AA.



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

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

To the Board of Trustees:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the Adams County Regional Water District, Adams County, (the District) as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated May 7, 2018.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

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

May 7, 2018



Dave Yost • Auditor of State

ADAMS COUNTY REGIONAL WATER DISTRICT

ADAMS COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
MAY 29, 2018**