



**JEFFERSON WATER AND SEWER DISTRICT
FRANKLIN COUNTY**

REGULAR AUDIT

FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016



Dave Yost • Auditor of State

**JEFFERSON WATER AND SEWER DISTRICT
FRANKLIN COUNTY**

TABLE OF CONTENTS

TITLE	PAGE
Independent Auditor's Report	1
Prepared by Management:	
Management's Discussion and Analysis	3
Basic Financial Statements:	
Statement of Net Position	9
Statement of Revenues, Expenses and Changes in Net Position	10
Statement of Cash Flows	11
Notes to the Basic Financial Statements	12
Required Supplementary Information:	
Schedule of the District's Proportionate Share of the Net Pension Liability (Ohio Public Employees Retirement System)	34
Schedule of District Contributions (Ohio Public Employees Retirement System)	35
Notes to the Required Supplementary Information	36
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by <i>Government Auditing Standards</i>	37
Summary Schedule of Prior Audit Findings	39

THIS PAGE INTENTIONALLY LEFT BLANK



Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT

Jefferson Water and Sewer District
Franklin County
6455 Taylor Road
Blacklick, Ohio 43004

To the Board of Trustees:

Report on the Financial Statements

We have audited the accompanying financial statements of the Jefferson Water and Sewer District, Franklin County, Ohio (the District), as of and for the years ended December 31, 2017 and 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 audit opinions.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Jefferson Water and Sewer District, Franklin County, Ohio, as of December 31, 2017 and 2016, and the respective changes in financial position and, where applicable, 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 October 18, 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

October 18, 2018

Jefferson Water and Sewer District
Management's Discussion and Analysis
For the Years Ended December 31, 2017 and 2016
(Unaudited)

This discussion and analysis, along with the accompanying financial reports, of Jefferson 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, 2017 and 2016 by \$16,980,131 and \$16,229,800 respectively. The District's net position increased by \$750,331 (4.6%) in 2017 and by \$2,289,448 (16.42%) in 2016.

The District's operating revenues increased by \$185,606 (3.5%) in 2017 and increased by \$669,294 (14.52%) in 2016. Operating expenses (excluding depreciation expense) increased by \$772,677 (23.4%) in 2017 and decreased by \$141,497 (-4.11%) in 2016. Depreciation expense decreased \$38,710 (-4.1%) in 2017 and increased \$60,479 (6.85%) in 2016.

OVERVIEW OF BASIC FINANCIAL STATEMENTS

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

The **Statements of Net Position** include all of the District's assets, liabilities and deferred inflows/outflows of resources. These statements provide information about the nature and amounts of investments in resources (assets) owned by the District, and obligations owed by the District (liabilities) on December 31, 2017. The District's net position is the difference between assets plus deferred outflows of resources and liabilities plus deferred inflows of resources.

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

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

Jefferson Water and Sewer District
Management's Discussion and Analysis
For the Years Ended December 31, 2017 and 2016
(Unaudited)

STATEMENTS OF NET POSITION

Table 1 summarizes 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.

Table 1

	2017	2016	Change	2015	Change
Current and Other Assets	\$6,779,520	\$5,943,185	\$836,335	\$4,398,623	\$1,544,562
Capital Assets, Net	23,873,433	22,695,709	1,177,724	21,656,439	1,039,270
Total Assets	<u>30,652,953</u>	<u>28,638,894</u>	<u>2,014,059</u>	<u>26,055,062</u>	<u>2,583,832</u>
Deferred Outflows of Resources					
Pension	443,908	339,379	104,529	104,402	234,977
Total Deferred Outflows of Resources	<u>443,908</u>	<u>339,379</u>	<u>104,529</u>	<u>104,402</u>	<u>234,977</u>
Long Term Liabilities	10,285,081	10,063,581	221,500	10,530,645	(467,064)
Current and Other Liabilities	3,816,538	2,668,623	1,147,915	1,678,487	990,136
Total Liabilities	<u>14,101,619</u>	<u>12,732,204</u>	<u>1,369,415</u>	<u>12,209,132</u>	<u>523,072</u>
Deferred Inflows of Resources					
Pension	15,111	16,269	(1,158)	9,980	6,289
Total Deferred Inflows of Resources	<u>15,111</u>	<u>16,269</u>	<u>(1,158)</u>	<u>9,980</u>	<u>6,289</u>
Net Position					
Net Investment in Capital Assets	13,584,683	12,730,699	853,984	10,980,992	1,749,707
Unrestricted	3,395,448	3,499,101	(103,653)	2,959,360	539,741
Total Net Position	<u>\$16,980,131</u>	<u>\$16,229,800</u>	<u>\$750,331</u>	<u>\$13,940,352</u>	<u>\$2,289,448</u>

For reasons discussed below, many end users of this financial statement will gain a clearer understanding of the District's actual financial condition by adding deferred inflows related to pension and the net pension liability to the reported net position and subtracting deferred outflows related to pension.

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

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

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

GASB notes that pension obligations, whether funded or unfunded, are part of the "employment exchange" – that is, the employee is trading his or her labor in exchange for wages, benefits, and the promise of a future pension. GASB noted that the unfunded portion of this pension promise is a present obligation of the government, part of a bargained-for benefit to the employee, and should accordingly be reported by the government as a liability since they received the benefit of the exchange. However, the District is not responsible for certain key factors affecting the balance of this liability. In Ohio, the employee shares the obligation of funding pension benefits with the employer. Both employer and employee contribution rates are capped by State statute. A change in these caps requires action of both Houses of the General Assembly and approval of the Governor. Benefit provisions are also determined by State

Jefferson Water and Sewer District
Management's Discussion and Analysis
For the Years Ended December 31, 2017 and 2016
(Unaudited)

statute. The employee enters the employment exchange with the knowledge that the employer's promise is limited not by contract but by law. The employer enters the exchange also knowing that there is a specific, legal limit to its contribution to the pension system. In Ohio, there is no legal means to enforce the unfunded liability of the pension system as against the public employer. State law operates to mitigate/lessen the moral obligation of the public employer to the employee, because all parties enter the employment exchange with notice as to the law. The pension system is responsible for the administration of the plan. Most long-term liabilities have set repayment schedules or, in the case of compensated absences (i.e. sick and vacation leave), are satisfied through paid time-off or termination payments. There is no repayment schedule for the net pension liability. As explained above, changes in pension benefits, contribution rates, and return on investments affect the balance of the net pension liability, but are outside the control of the local government. In the event that contributions, investment returns, and other changes are insufficient to keep up with required pension payments, State statute does not assign/identify the responsible party for the unfunded portion. Due to the unique nature of how the net pension liability is satisfied, this liability is separately identified within the long-term liability section of the statement of net position. In accordance with GASB 68, the District's statements prepared on an accrual basis of accounting include an annual pension expense for their proportionate share of each plan's change in net pension liability not accounted for as deferred inflows/outflows.

The District's net position increased by \$750,331 (4.6%) in 2017 and increased \$2,289,448 (16.42%) in 2016.

The District's assets increased by \$2,014,059 in 2017. The increase is primarily a result of an increase in investments and capital assets. The increase in capital assets is primarily a result of completed construction and water and sewer line contributions. The increase in investments is primarily a result of an excess of cash receipts over cash disbursements. Liabilities increased \$1,369,415 in 2017. This increase is primarily due to an increase in unearned revenue, contracts payable and the net pension liability which was partially offset by principal payments on debt.

Unrestricted net position decreased by \$103,653 (-3.0%) in 2017. Unrestricted assets may be used without constraints established by bond covenants or other legal requirements. Net investment in capital assets increased by \$853,984 from 2016 to 2017 primarily due to additions of capital assets and payments on debt balances which were only partially offset by depreciation expense.

The District's assets increased by \$2,583,832 in 2016. The increase is primarily a result of an increase in cash and cash equivalents and investments and capital assets. The increase in capital assets is primarily a result of water and sewer line donations. The increase in cash and cash equivalents and investments is primarily a result of an excess of cash receipts over cash disbursements. Liabilities increased \$523,072 in 2016. This increase is primarily due to an increase in unearned revenue and the net pension liability which was partially offset by principal payments on debt.

Unrestricted net position increased by \$539,741 (18.23%) in 2016. Unrestricted assets may be used without constraints established by bond covenants or other legal requirements. Net investment in capital assets increased by \$1,749,707 from 2015 to 2016 primarily due to additions of capital assets and payments on debt balances which were only partially offset by depreciation expense.

Jefferson Water and Sewer District
Management's Discussion and Analysis
For the Years Ended December 31, 2017 and 2016
(Unaudited)

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

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

Table 2

	2017	2016	Change	2015	Change
Operating Revenues	\$5,462,229	\$5,276,623	\$185,606	\$4,607,329	\$669,294
Total Operating Revenues	5,462,229	5,276,623	185,606	4,607,329	669,294
Non-Operating Revenues	152,069	177,241	(25,172)	76,644	100,597
Total Revenues	5,614,298	5,453,864	160,434	4,683,973	769,891
Operating Expenses (Excluding Depreciation)	4,075,526	3,302,849	772,677	3,444,346	(141,497)
Depreciation Expense	904,592	943,302	(38,710)	882,823	60,479
Total Operating Expenses	4,980,118	4,246,151	733,967	4,327,169	(81,018)
Non-Operating Expenses	424,419	561,776	(137,357)	564,552	(2,776)
Total Expenses	5,404,537	4,807,927	596,610	4,891,721	(83,794)
Capital Contributions	540,570	1,643,511	(1,102,941)	370,808	1,272,703
Changes in Net Position	750,331	2,289,448	(1,539,117)	163,060	2,126,388
Net Position at Beginning of Year	16,229,800	13,940,352	2,289,448	13,777,292	163,060
Net Position at End of Year	\$16,980,131	\$16,229,800	\$750,331	\$13,940,352	\$2,289,448

Operating revenues increased by \$185,606 from 2016 to 2017 which is primarily due to an increase in charges for services, tap fees and miscellaneous revenues.

Operating expenses increased by \$733,967 from 2016 to 2017 primarily due to an increase in plant operations related expenses for sewer treatment.

Operating revenues increased by \$669,294 from 2015 to 2016 which is primarily due to an increase in charges for services and tap fees.

Operating expenses decreased by \$81,018 from 2015 to 2016 primarily due to a decrease in plant operations related expenses for sewer treatment as the issues denoted in 2015 were corrected during 2016.

Jefferson Water and Sewer District
Management's Discussion and Analysis
For the Years Ended December 31, 2017 and 2016
(Unaudited)

CAPITAL ASSETS

The District had \$37,626,605 and \$35,529,417 invested in depreciable capital assets (before depreciation) at the end of 2017 and 2016, respectively. This amount is an increase of \$2,097,188 (5.9%) from 2016 to 2017 and an increase of \$1,887,005 (5.61%) from 2015 to 2016. The increase in 2017 is primarily the result of donated water and sewer lines and the completion of construction projects. The increase in 2016 is primarily the result of donated water and sewer lines and the completion of construction projects. Additional information regarding capital assets can be found in Note D to the Basic Financial Statements.

	Table 3				
	2017	2016	Change	2015	Change
Non-depreciable Capital Assets					
Land and land easements	\$777,732	\$777,732	\$0	\$671,076	\$106,656
Construction in progress	222,330	237,202	(14,872)	265,050	(27,848)
Total Non-depreciable Capital Assets	1,000,062	1,014,934	(14,872)	936,126	78,808
Depreciable Capital Assets					
Buildings and improvements	5,337,811	5,277,459	60,352	5,277,459	0
Completed construction	17,459,593	16,001,556	1,458,037	15,813,262	188,294
Furniture and general equipment	2,812,222	2,773,993	38,229	2,755,302	18,691
Vehicles and accessories	232,822	232,822	0	196,313	36,509
Donated assets	11,784,157	11,243,587	540,570	9,600,076	1,643,511
Totals Before Accumulated Depreciation	37,626,605	35,529,417	2,097,188	33,642,412	1,887,005
Accumulated Depreciation	(14,753,234)	(13,848,642)	(904,592)	(12,922,099)	(926,543)
Net Depreciable Capital Assets	22,873,371	21,680,775	1,192,596	20,720,313	960,462
Total Capital Assets	<u>\$23,873,433</u>	<u>\$22,695,709</u>	<u>\$1,177,724</u>	<u>\$21,656,439</u>	<u>\$1,039,270</u>

Jefferson Water and Sewer District
Management's Discussion and Analysis
For the Years Ended December 31, 2017 and 2016
(Unaudited)

DEBT

The District issues long term debt to finance much of its construction. With the exception of the Rural Development bonds and the PNC Financial Corporation loan, the Ohio Water Development Authority (OWDA) loans were used to finance most general improvement projects.

Table 4

	2017	2016	Change	2015	Change
Ohio Water Development Authority (OWDA)	\$5,574,998	\$5,454,210	\$120,788	\$5,936,147	(\$481,937)
Rural Development	4,199,200	4,270,800	(71,600)	4,339,300	(68,500)
PNC Financial Corp	80,000	240,000	(160,000)	400,000	(160,000)
Total Long Term Debt	9,854,198	9,965,010	(110,812)	10,675,447	(710,437)
Less: Current Maturities	695,449	743,415	(47,966)	712,881	30,534
Net Total Long Term Debt	<u>\$9,158,749</u>	<u>\$9,221,595</u>	<u>(\$62,846)</u>	<u>\$9,962,566</u>	<u>(\$740,971)</u>

The District's debt is paid from operating revenues generated by the District. For additional information regarding debt, please see note E to the basic financial statements.

CASH

Cash and cash equivalents were \$3,142,975 on December 31, 2017 and \$3,470,814 on December 31, 2016.

CONTACT INFORMATION

Questions regarding this report and requests for additional information should be forwarded to Mark Williams, Jefferson Water and Sewer District, 6455 Taylor Rd., Blacklick, Ohio 43004 or (614) 864-0740.

Jefferson Water and Sewer District
Statements of Net Position
As of December 31, 2017 and 2016

	2017	2016
CURRENT ASSETS:		
Cash and cash equivalents	\$2,884,527	\$3,212,366
Investments	2,740,505	1,462,292
Accounts receivable	470,377	471,486
Inventory	59,244	148,166
Prepaid expense	230,764	197,290
Intergovernmental receivable	37,018	50,576
Total Current Assets	6,422,435	5,542,176
RESTRICTED ASSETS:		
Restricted cash and cash equivalents	258,448	258,448
Water assessments receivable	58,940	92,453
Sewer assessments receivable	39,697	50,108
Total Restricted Assets	357,085	401,009
CAPITAL ASSETS:		
Capital assets, not being depreciated	1,000,062	1,014,934
Capital assets, net of accumulated depreciation	22,873,371	21,680,775
Total Capital Assets	23,873,433	22,695,709
Total Assets	30,652,953	28,638,894
DEFERRED OUTFLOWS OF RESOURCES:		
Pensions	443,908	339,379
Total Assets and Deferred Outflows of Resources	\$31,096,861	\$28,978,273
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION		
CURRENT LIABILITIES:		
Accounts payable	\$466,943	\$478,985
Accrued wages and benefits and withholding payroll expenses	184,183	159,169
Current portion of long term debt	695,449	743,415
Contracts payable	434,552	0
Accrued interest payable	245,696	318,737
Customer deposits- payable	100,970	85,780
Unearned revenue	1,688,745	882,537
Total Current Liabilities	3,816,538	2,668,623
LONG TERM LIABILITIES:		
Long term debt less current portion	9,158,749	9,221,595
Net Pension Liabilities	1,126,332	841,986
Total Long Term Liabilities	10,285,081	10,063,581
Total Liabilities	14,101,619	12,732,204
DEFERRED INFLOWS OF RESOURCES:		
Pensions	15,111	16,269
NET POSITION:		
Net Investment in capital assets	13,584,683	12,730,699
Unrestricted	3,395,448	3,499,101
Total Net Position	16,980,131	16,229,800
Total Liabilities, Deferred Inflows of Resources and Net Position	\$31,096,861	\$28,978,273

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

Jefferson Water and Sewer District
Statements of Revenues, Expenses and Changes in Net Position
For the Years Ended December 31, 2017 and 2016

	2017	2016
OPERATING REVENUES:		
Charges for services	\$4,686,542	\$4,554,284
Tap fees	587,170	581,309
Miscellaneous income	188,517	141,030
Total Operating Revenues	5,462,229	5,276,623
OPERATING EXPENSES:		
Plant operations	2,511,739	1,935,218
Salaries and payroll related expenses	1,215,865	1,096,802
General and administration expenses	347,922	270,829
Depreciation	904,592	943,302
Total Operating Expenses	4,980,118	4,246,151
Operating Income	482,111	1,030,472
NON-OPERATING INCOME AND (EXPENSES):		
Interest income	85,547	48,070
Intergovernmental	66,522	129,171
Interest expense	(424,419)	(561,776)
Total Nonoperating Income (Expenses)	(272,350)	(384,535)
Increase (Decrease) In Net Position before Capital Contributions	209,761	645,937
Capital Contributions - Donated Lines and Pump Station	540,570	1,643,511
Increase In Net Position	750,331	2,289,448
Net Position, Beginning of Year	16,229,800	13,940,352
Net Position, End of Year	\$16,980,131	\$16,229,800

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

Jefferson Water and Sewer District
Statements of Cash Flows
For the Years Ended December 31, 2017 and 2016

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers	\$6,081,029	\$5,990,656
Cash received from other operating income	188,517	141,030
Cash payments to suppliers for goods and services	(2,816,255)	(2,246,513)
Cash payments for employee services and benefits	(1,012,192)	(1,041,998)
Net Cash Provided by Operating Activities	<u>2,441,099</u>	<u>2,843,175</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
Customer Deposits	15,190	1,581
Net Cash Provided by/(Used for) Non-Capital Financing Activities	<u>15,190</u>	<u>1,581</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Construction of water and sewer projects and other capital acquisitions	(1,107,194)	(339,061)
Proceeds from construction loans	632,605	2,444
Principal payments on construction loans	(743,417)	(712,881)
Interest payments on construction loans	(417,380)	(439,026)
Special assessment collections - principal	43,924	42,196
Special assessment collections - interest	10,292	13,287
Net Cash Used for Capital and Related Financing Activities	<u>(1,581,170)</u>	<u>(1,433,041)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Sale of investments	(1,278,213)	576,799
Interest received on bank accounts	75,255	34,783
Net Cash Provided by (Used for) Investing Activities	<u>(1,202,958)</u>	<u>611,582</u>
Net Increase (Decrease) In Cash and Cash Equivalents	(327,839)	2,023,297
Cash and Cash Equivalents, Beginning of the Year	3,470,814	1,447,517
Cash and Cash Equivalents, End of the Year	<u>\$3,142,975</u>	<u>\$3,470,814</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating Income	\$482,111	\$1,030,472
ADJUSTMENTS TO RECONCILE OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Depreciation	904,592	943,302
CHANGES IN NET ASSETS AND LIABILITIES		
(Increase)/Decrease in accounts receivable	1,109	(29,668)
(Increase) in prepaid expense	(33,474)	(153,515)
Decrease in inventory	88,922	81,828
Decrease in notes receivable	0	2,194
(Increase) in deferred outflows of resources - pensions	(104,529)	(234,977)
Increase/(Decrease) in accounts payable (operating)	(12,042)	31,221
Increase in accrued wages and benefits and withholding payroll taxes	25,014	9,585
Increase in unearned revenue	806,208	882,537
Increase in net pension liability	284,346	273,907
Increase in deferred inflows of resources - pensions	(1,158)	6,289
Total Adjustments	<u>1,958,988</u>	<u>1,812,703</u>
Net Cash Provided by Operating Activities	<u>\$2,441,099</u>	<u>\$2,843,175</u>
NONCASH TRANSACTIONS		
Donated developer lines and pump station	\$540,570	\$1,643,511
Intergovernmental revenue - interest subsidy	\$80,080	\$88,072
Interest expense - interest subsidy	(\$80,080)	(\$88,072)

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

Jefferson Water and Sewer District
Notes to the Basic Financial Statements
For the Years Ended December 31, 2017 and 2016

NOTE A – NATURE OF ORGANIZATION

Jefferson Water and Sewer District (the “District”) was created by the Court of Common Pleas of Franklin County to provide water and sewer services to the residents of Jefferson Township in accordance with the provisions of section 6119.01 of the Ohio Revised Code. The District is managed by a Board comprised of five appointed trustees.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity:

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

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

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

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

1. Basis of Presentation – Fund Accounting

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

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

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

2. Measurement Focus and Basis of Accounting

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

3. Budgetary Process

The Ohio Revised Code requires that each fund be budgeted annually. The District has adopted a budget for the years ended December 31, 2017 and 2016, and passed annual appropriations and resolutions.

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

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

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

4. Revenue Recognition

Revenues for the service fees are recorded in the period the service is provided. Revenue for tap fees from developers is recorded when construction of the main water and sewer lines to a development is complete and the District and the developer have satisfied the terms of the tap agreement. The principal portion of tap fee revenues from customer five-year notes receivable is recognized in the year the note is executed; interest from the notes receivable is recognized in the year earned. All other revenue is recognized when earned.

5. Accounts Receivable

Accounts receivable are shown at their net realizable value. The direct write-off method is used to record bad debts. Uncollectible accounts receivable are charged to operations during the period in which they are determined to be uncollectible. The results of using the direct write-off method closely approximate the reserve method of accounting for receivables. Bad debts are only recorded after all efforts for collection are exhausted, including certifying delinquent accounts to the county auditor, which are attached to real estate tax billings.

6. Prepaid Expenses

Payments made to vendors for services that will benefit periods beyond year-end are recorded as prepaid expenses using the consumption method. An asset for prepaid amounts is recorded at the time of the purchase and an expense is reported in the year in which services are consumed.

7. Capital Assets

Capital assets are stated at cost (except as noted in the next paragraph with respect to donated developer lines) and are depreciated over the estimated useful lives of the assets from 5 years to 50 years depending upon the type of asset. Buildings have an estimated useful life of 30-50 years. Water and sewer lines and related infrastructure have an estimated useful life of 25-50 years. Furniture and general equipment have an estimated useful life of 5-15 years. Vehicles and accessories have an estimated useful life of 5-7 years. The District capitalizes assets that have a value or cost in excess of \$1,000 at the date of acquisition and an expected useful life of one or more years.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Donated developer lines are stated at acquisition value based on developer documentation, and are depreciated over 50 years, which represents the estimated useful lives of the assets. 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 are capitalized.

8. Cash and Cash Equivalents

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

Investments with a maturity of three months or less at the time they are purchased by the District are considered to be pooled cash and investments and are reported as “cash and cash equivalents” in the accompanying financial statements.

9. Interest Expense

Interest expense for the years ended December 31, 2017 and 2016 represents the interest portion of construction loan payments to the Ohio Water Development Authority, Rural Development, and PNC Financial Corporation in the amount of \$424,419 and \$561,776.

10. Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America require management to make estimates and assumptions that affect 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 revenue and expenses during the reporting period. Actual results could differ from those estimates.

11. Board Designated Cash Fund

The Board of Trustees allocates \$1,500 each year, via resolution, for expenditures to be designated by the Trustees. This procedure is in accordance with the Ohio Revised Code. Board discretionary expenditures for the years ended December 31, 2017 and 2016 were \$194 and \$0, respectively.

12. Vacation, Sick Leave and Other Compensated Absences

The District’s employees are entitled to certain compensated absences based on their length of employment. Accrued employee benefits include cumulative vested vacation, sick leave, and compensatory hours multiplied by current hourly rates.

13. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary fund. For the District, these revenues are service revenues and late charges 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. Revenues and expenses not meeting these definitions are identified as non-operating.

14. Net Position

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

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

15. Inventory of Materials and Supplies

Inventories of materials and supplies are presented at the lower of cost or market on a first-in, first-out basis and are expensed when used.

16. Restricted Assets

Restricted assets should be reported when restrictions on asset use change the nature or normal understanding of the availability of the asset. Restricted assets represent certain resources segregated from other resources of the District to comply with various covenants established by bond financing agreements. These assets are generally held in separate accounts of the District or by a trustee. The various covenants place restrictions on the use of these resources, require minimum balances to be maintained in certain accounts, and establish annual amounts to be accumulated for specific purposes.

17. Planning Costs – Proposed Projects

The planning costs for proposed projects are comprised of engineering, legal and administrative planning costs which are not allocated to specific projects currently in construction. If the proposed project begins construction, the respective planning costs will be included in capital assets and depreciated. If the proposed project does not enter construction, respective planning costs will be deemed impaired assets and written-off.

18. Deferred Outflows and Deferred Inflows of Resources

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

19. Pensions

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

NOTE C – RECEIVABLES

Accounts receivable are presented at their net realizable value of \$470,377 and \$471,486 as of December 31, 2017 and 2016.

Assessment receivables represent the principal portion of assessments for water and sewer line construction costs to local service users. These amounts will generally be paid over the life of the related debt (see Note E) including interest rates ranging from 6.16% to 7.14% and are reported as restricted assets.

Jefferson Water and Sewer District
Notes to the Basic Financial Statements
For the Years Ended December 31, 2017 and 2016

NOTE D – CAPITAL ASSETS

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

	Ending Balance at 12/31/2016	Additions	Deletions	Ending Balance at 12/31/2017
Capital Assets, Not Being Depreciated				
Land and Land Easements	\$777,732	\$0	\$0	\$777,732
Construction in Progress	237,202	747,732	(762,604)	222,330
Total Capital Assets, Not Being Depreciated	1,014,934	747,732	(762,604)	1,000,062
Capital Assets, Being Depreciated				
Buildings and Improvements	5,277,459	60,352	0	5,337,811
Water and Sewer Lines and Related Infrastructure	16,001,556	1,458,037	0	17,459,593
Vehicles and Accessories	232,822	0	0	232,822
Furniture and General Equipment	2,773,993	38,229	0	2,812,222
Donated Water and Sewer Lines	11,243,587	540,570	0	11,784,157
Total Capital Assets, Being Depreciated	35,529,417	2,097,188	0	37,626,605
Less Accumulated Depreciation:				
Buildings and Improvements	(2,078,234)	(143,278)	0	(2,221,512)
Water and Sewer Lines and Related Infrastructure	(7,182,544)	(407,128)	0	(7,589,672)
Vehicles and Accessories	(175,451)	(10,957)	0	(186,408)
Furniture and General Equipment	(1,651,821)	(121,692)	0	(1,773,513)
Donated Water and Sewer Lines	(2,760,592)	(221,537)	0	(2,982,129)
Total Accumulated Depreciation	(13,848,642)	(904,592)	0	(14,753,234)
Total Capital Assets Being Depreciated, Net	21,680,775	1,192,596	0	22,873,371
Total Capital Assets	\$22,695,709	\$1,940,328	(\$762,604)	\$23,873,433

Jefferson Water and Sewer District
Notes to the Basic Financial Statements
For the Years Ended December 31, 2017 and 2016

NOTE D – CAPITAL ASSETS (Continued)

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

	Ending Balance at 12/31/2015	Additions	Deletions	Ending Balance at 12/31/2016
Capital Assets , Not Being Depreciated				
Land and Land Easements	\$671,076	\$106,656	\$0	\$777,732
Construction in Progress	265,050	2,441	(30,289)	237,202
Total Capital Assets, Not Being Depreciated	936,126	109,097	(30,289)	1,014,934
Capital Assets, Being Depreciated				
Buildings and Improvements	5,277,459	0	0	5,277,459
Water and Sewer Lines and Related Infrastructure	15,813,262	188,294	0	16,001,556
Vehicles and Accessories	196,313	53,267	(16,758)	232,822
Furniture and General Equipment	2,755,302	18,691	0	2,773,993
Donated Water and Sewer Lines	9,600,076	1,643,511	0	11,243,587
Total Capital Assets, Being Depreciated	33,642,412	1,903,763	(16,758)	35,529,417
Less Accumulated Depreciation:				
Buildings and Improvements	(1,935,711)	(142,523)	0	(2,078,234)
Water and Sewer Lines and Related Infrastructure	(6,777,986)	(404,558)	0	(7,182,544)
Vehicles and Accessories	(184,244)	(7,966)	16,759	(175,451)
Furniture and General Equipment	(1,523,932)	(127,889)	0	(1,651,821)
Donated Water and Sewer Lines	(2,500,226)	(260,366)	0	(2,760,592)
Total Accumulated Depreciation	(12,922,099)	(943,302)	16,759	(13,848,642)
Total Capital Assets Being Depreciated, Net	20,720,313	960,461	1	21,680,775
Total Capital Assets	\$21,656,439	\$1,069,558	(\$30,288)	\$22,695,709

Jefferson Water and Sewer District
Notes to the Basic Financial Statements
For the Years Ended December 31, 2017 and 2016

NOTE E – LONG-TERM DEBT

Loans payable related to construction of the District’s infrastructure consist of the following loans payable to the Ohio Water Development Authority for December 31, 2017 and 2016:

OWDA Loans Payable:	2017	2016
7.21% due in semi-annual payments of \$12,396, including interest through July 2018	23,126	44,695
7.14% due in semi-annual payments of \$7,170, including interest through July 2018	13,378	25,871
6.51% due in semi-annual payments of \$9,856, including interest through January 2022	81,899	95,401
6.18% due in semi-annual payments of \$2,367, including interest through July 2022	19,843	23,147
5.88% due in semi-annual payments of \$9,785, including interest through January 2023	89,648	103,152
5.66% due in semi-annual payments of \$16,119, including interest through January 2025	192,528	212,725
5.56% due in semi-annual payments of \$22,440, including interest through January 2025	272,199	300,749
5.77% due in semi-annual payments of \$9,067, including interest through January 2025	109,148	120,491
5.85% due in semi-annual payments of \$7,797, including interest through January 2021	48,011	60,089
6.72% due in semi-annual payments of \$25,478, including interest through January 2021	154,061	192,108
6.16% due in semi-annual payments of \$18,861, including interest through January 2020	84,771	115,385
6.41% due in semi-annual payments of \$4,667, including interest through January 2027	65,659	70,549
6.39% due in semi-annual payments of \$12,930, including interest through January 2027	182,056	195,629
6.39% due in semi-annual payments of \$3,383, including interest through July 2027	49,437	52,878
6.39% due in semi-annual payments of \$12,877, including interest through January 2027	181,304	194,822
6.03% due in semi-annual payments of \$64,884, including interest through January 2027	928,154	998,746
6.03% due in semi-annual payments of \$15,454, including interest through January 2027	221,067	237,880
6.03% due in semi-annual payments of \$10,084, including interest through January 2027	144,253	155,224
6.03% due in semi-annual payments of \$17,014, including interest through January 2027	243,377	261,888
5.15% due in semi-annual payments of \$3,230, including interest through July 2028	53,735	57,290
4.40% due in semi-annual payments of \$56,999, including interest through July 2028	985,684	1,054,049
4.66% due in semi-annual payments of \$32,573, including interest through July 2029	593,651	629,862

Jefferson Water and Sewer District
Notes to the Basic Financial Statements
For the Years Ended December 31, 2017 and 2016

NOTE E – LONG-TERM DEBT (Continued)

OWDA Loans Payable:	2017	2016
3.77% due in semi-annual payments of \$27,569, Including interest through July 2021	202,960	249,136
2.01% due in semi-annual payments to be determined, through January 2033	635,049	2,444
Total	<u>5,574,998</u>	<u>5,454,210</u>
Less current maturities	<u>(540,849)</u>	<u>(511,815)</u>
Noncurrent OWDA loans payable	<u>\$5,034,149</u>	<u>\$4,942,395</u>

	Balance 12/31/2016	Additions	Reductions	Balance 12/31/2017	Amount Due Within One Year
O.W.D.A.	\$5,454,210	\$632,605	\$511,817	\$5,574,998	\$540,849
Rural Development	4,270,800	0	71,600	4,199,200	74,600
PNC Financial Corp	240,000	0	160,000	80,000	80,000
Net Pension Liabilities	841,986	284,346	0	1,126,332	0
	<u>\$10,806,996</u>	<u>\$916,951</u>	<u>\$743,417</u>	<u>\$10,980,530</u>	<u>\$695,449</u>
	Balance 12/31/2015	Additions	Reductions	Balance 12/31/2016	Amount Due Within One Year
O.W.D.A.	\$5,936,147	\$2,444	\$484,381	\$5,454,210	\$511,815
Rural Development	4,339,300	0	68,500	4,270,800	71,600
PNC Financial Corp	400,000	0	160,000	240,000	160,000
Net Pension Liabilities	568,079	273,907	0	841,986	0
	<u>\$11,243,526</u>	<u>\$276,351</u>	<u>\$712,881</u>	<u>\$10,806,996</u>	<u>\$743,415</u>

On February 18, 2016, the District was notified by the Ohio Water Development Authority (OWDA) that they have implemented an interest rate buy-down program to assist communities and local governments with outstanding OWDA loans. Any District OWDA loans with interest rates exceeding 4.00% will see a reduction of the interest ratio to 4.00%. The buy-down was credited to District payments starting with the July 1, 2016 due date and resulted in an interest subsidy in 2017 which was treated as both a non-operating revenue (Intergovernmental Revenue) and a non-operating expense (Interest Expense) in the accompanying financial statements. The District will receive an estimated \$321,358 of additional interest subsidies through 2029 in the following amounts annually:

Interest Subsidy

2018	67,158
2019	58,488
2020	49,906
2021	41,617
2022	34,498
2023	27,253
2024	20,243
2025	13,072
2026	6,789
2027	1,584
2028	645
2029	<u>105</u>
Total	<u>\$321,358</u>

Jefferson Water and Sewer District
Notes to the Basic Financial Statements
For the Years Ended December 31, 2017 and 2016

NOTE E – LONG-TERM DEBT (Continued)

Maturities of the District’s debt for the years subsequent to December 31, 2017 are as follows:

	OWDA Loans			Rural Development Bonds		
	Principal	Interest	Total	Principal	Interest	Total
2018	\$540,849	\$265,153	\$806,002	\$74,600	\$183,715	\$258,315
2019	532,452	234,417	766,869	77,900	180,451	258,351
2020	543,307	204,700	748,007	81,300	177,043	258,343
2021	521,444	174,427	695,871	84,800	173,486	258,286
2022	461,161	146,298	607,459	88,600	169,776	258,376
2023-2027	2,101,134	349,827	2,450,961	504,500	787,248	1,291,748
2028-2032	239,602	11,143	250,745	624,900	666,803	1,291,703
2033-2037	0	0	0	774,100	517,607	1,291,707
2038-2042	0	0	0	959,000	332,793	1,291,793
2043-2046	0	0	0	929,500	103,839	1,033,339
Total	\$4,939,949	\$1,385,965	\$6,325,914	\$4,199,200	\$3,292,761	\$7,491,961

	PNC Financial Corp			Total		
	Principal	Interest	Total	Principal	Interest	Total
2018	\$80,000	\$1,744	\$81,744	\$695,449	\$450,612	\$1,146,061
2019	0	0	0	610,352	414,868	1,025,220
2020	0	0	0	624,607	381,743	1,006,350
2021	0	0	0	606,244	347,913	954,157
2022	0	0	0	549,761	316,074	865,835
2023-2027	0	0	0	2,605,634	1,137,075	3,742,709
2028-2032	0	0	0	864,502	677,946	1,542,448
2033-2037	0	0	0	774,100	517,607	1,291,707
2038-2042	0	0	0	959,000	332,793	1,291,793
2043-2046	0	0	0	929,500	103,839	1,033,339
Total	\$80,000	\$1,744	\$81,744	\$9,219,149	\$4,680,470	\$13,899,619

The District has a 2.01% Ohio Water Development Authority loan with an outstanding balance of \$635,049 which is not included in the above amortization schedule because the loan has not been finalized.

During 2006, the District issued \$4,840,000 in Rural Development Water Resource Revenue Bonds to retire an Ohio Water Development Authority loan. The terms of the bonds are an interest rate of 4.375% with a maturity date of 2046.

During 2007, the District obtained a PNC Financial Corp loan in the amount of \$1,600,000 for the purpose of Blacklick sanitary sewer improvements. The terms of the loan are an interest rate of 4.36% with a maturity date of 2018.

In connection with the mortgage revenue bonds and Ohio Water Development Authority loans, 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 and loans are payable, through their final maturities, solely from net revenues applicable to its fund. The combined principal and interest remaining to be paid on these bonds and loans as of December 31, 2017 and 2016 are \$7,491,961 and \$7,750,409, and \$6,325,914 and \$7,146,130 respectively. The coverage ratios at December 31, 2017 and 2016 were 1.31 and 1.80, respectively.

NOTE F – CAPITAL CONTRIBUTIONS

Donated Developer Lines

Donated developer sewer and water lines are shown on the face of the financial statements as capital contributions – donated lines and pump stations. The District had capital contributions of \$540,570 for 2017 and \$1,643,511 for 2016.

NOTE G – DEFINED BENEFIT RETIREMENT PLAN

Net Pension Liability

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

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

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

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

Plan Description – Ohio Public Employees Retirement System (OPERS)

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

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

Jefferson Water and Sewer District
Notes to the Basic Financial Statements
For the Years Ended December 31, 2017 and 2016

NOTE G – DEFINED BENEFIT RETIREMENT PLAN (Continued)

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

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

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

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

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

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

	State and Local	Public Safety	Law Enforcement
2017 Statutory Maximum Contribution Rates			
Employer	14.0 %	18.1 %	18.1 %
Employee	10.0 %	*	**
2017 Actual Contribution Rates			
Employer:			
Pension	13.0 %	17.1 %	17.1 %
Post-employment Health Care Benefits	1.0	1.0	1.0
Total Employer	<u>14.0 %</u>	<u>18.1 %</u>	<u>18.1 %</u>
Employee	<u>10.0 %</u>	<u>12.0 %</u>	<u>13.0 %</u>

Employer contribution rates are actuarially determined and are expressed as a percentage of covered payroll. The District's contractually required contribution to OPERS was \$89,557 in fiscal year 2017. Of this amount \$14,079 was reported as a payroll related liability.

Jefferson Water and Sewer District
Notes to the Basic Financial Statements
For the Years Ended December 31, 2017 and 2016

NOTE G – DEFINED BENEFIT RETIREMENT PLAN (Continued)

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

The net pension liability reported as of December 31, 2017 was measured as of December 31, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on the District's share of contributions to the pension plan relative to the projected contributions of all participating entities. Following is information related to the proportionate share:

	<u>2017</u> <u>OPERS</u>	<u>2016</u> <u>OPERS</u>
Proportionate Share of the Net Pension Liability-Current Year	0.004960%	0.004861%
Proportionate Share of the Net Pension Liability-Prior Year	<u>0.004861%</u>	<u>0.004710%</u>
Change in Proportionate Share	<u>0.000099%</u>	<u>0.000151%</u>
Proportion of the Net Pension Liability	\$1,126,332	\$841,986
Pension Expense	\$268,216	\$123,821

At December 31, 2017 and 2016, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>2017</u> <u>OPERS</u>	<u>2016</u> <u>OPERS</u>
Deferred Outflows of Resources		
Differences between expected and actual investment earnings	167,737	247,491
Differences between projected and actual economic experience	1,527	
Changes of assumptions	178,650	
Changes in proportion	6,437	11,951
District contributions subsequent to the measurement date	<u>89,557</u>	<u>79,937</u>
Total	<u>\$ 443,908</u>	<u>\$ 339,379</u>
Deferred Inflows of Resources		
Differences between projected and actual economic experience	6,703	16,269
Changes in proportion	<u>8,408</u>	<u>-</u>
Total	<u>\$ 15,111</u>	<u>\$ 16,269</u>

\$89,557 reported as deferred outflows of resources related to pension resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending December 31, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

Jefferson Water and Sewer District
Notes to the Basic Financial Statements
For the Years Ended December 31, 2017 and 2016

NOTE G – DEFINED BENEFIT RETIREMENT PLAN (Continued)

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

Fiscal Year Ending December 31:	OPERS
2018	\$ 142,226
2019	142,650
2020	59,280
2021	(4,916)
Total	\$ 339,240

Actuarial Assumptions – OPERS

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

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employers and plan members) and include the types of benefits provided at the time of each valuation. The total pension liability in the December 31, 2016, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Wage Inflation	3.25 percent
Future Salary Increases, including inflation	3.25 to 10.75%(Traditional; 3.25% - 8.25% Combined)
COLA or Ad Hoc COLA	Pre 1/7/2013 Retirees: 3 percent, simple Post 1/7/2013 Retirees: 3.00 % Simple through 2018, then 2.15% Simple
Investment Rate of Return	7.50 percent
Actuarial Cost Method	Individual Entry Age

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

Discount Rate The discount rate used to measure the 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 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.

Jefferson Water and Sewer District
Notes to the Basic Financial Statements
For the Years Ended December 31, 2017 and 2016

NOTE G – DEFINED BENEFIT RETIREMENT PLAN (Continued)

Actuarial Assumptions – OPERS – Continued

The allocation of investment assets within the Defined Benefit portfolio is approved by the 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 table below displays the Board-approved asset allocation policy for 2016 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 %	2.75 %
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 %

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

Net pension liability is sensitive to changes in the discount rate, and to illustrate the potential impact the following table presents the net pension liability calculated using the discount rate of 7.50 percent, as well as what each plan's net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.50 percent), or one percentage point higher (8.50 percent) than the current rate.

	<u>1% Decrease (6.5%)</u>	<u>Current Discount Rate (7.5%)</u>	<u>1% Increase (8.5%)</u>
District's proportionate share of the net pension liability	\$1,720,723	\$1,126,332	\$631,011

Average Remaining Service Life GASB 68 requires that changes arising from differences between expected and actual experience or from changes in assumptions be recognized in pension expense over the average remaining service life of all employees provided with benefits through the pension plan (active or inactive). As of December 31, 2015, the average expected remaining service lives of all employees calculated by external actuaries for the Traditional Plan was 3.0856 years and for the Combined Plan was 9.1304 years. These amounts were used when calculating elements of pension expense subject to amortization requirements as defined in GASB 68 and reported in the Schedule of Collective Pension Amounts.

NOTE H – POSTEMPLOYMENT BENEFITS

Ohio Public Employees Retirement System

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

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

In order to qualify for 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 No. 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 health care to its eligible benefit recipients. Authority to establish and amend health care coverage 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 OPERS health care plans.

Employer contribution rates are expressed as a percentage of the earnable salary of active members. In 2017, State and Local employers contributed at a rate of 14.0 percent of earnable salary 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 Pension Plan and Combined Plan was 1.0% during calendar year 2017.

As recommended by OPERS’ actuary, the portion of employer contributions allocated to health care beginning January 1, 2018 decreased to 0.0% for both plans. The OPERS Board is also authorized to establish rules for the retiree or their surviving beneficiaries to pay a portion of the health care provided. Payment amounts vary depending on the number of covered dependents and the coverage selected. The employer contribution as a percentage of covered payroll deposited for Member-Directed Plan participants for 2017 was 4.0%.

Substantially all of the District’s contribution allocated to fund post-employment health care benefits relates to the cost-sharing, multiple employer trusts. The corresponding contribution for the years ended December 31, 2017, 2016, and 2015 was \$6,886, \$13,327 and \$12,353, respectively. The full amount has been contributed for 2017, 2016 and 2015.

Jefferson Water and Sewer District
Notes to the Basic Financial Statements
For the Years Ended December 31, 2017 and 2016

NOTE I – 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 be evidenced either by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.

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

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

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

Jefferson Water and Sewer District
Notes to the Basic Financial Statements
For the Years Ended December 31, 2017 and 2016

NOTE I – DEPOSITS WITH FINANCIAL INSTITUTIONS – LEGAL REQUIREMENTS (Continued)

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 Controller 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 purchased under section 135 of the Ohio Revised Code 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 purchased under section 6119 have no such maturity restrictions.

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 Controller 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.

The carrying amount of all District deposits was \$3,090,782, exclusive of \$564 in cash on hand at December 31, 2017. The carrying amount of all District deposits was \$2,647,626, exclusive of \$554 in cash on hand at December 31, 2016. As of December 31, 2017 and 2016, \$3,184,370 and \$2,657,699 of the District's bank balances were covered by FDIC for \$1,472,524 and \$1,014,201 at December 31, 2017 and 2016. The remainder of the District's balances were uninsured and uncollateralized. Although all statutory requirements for the deposit of money have been followed, noncompliance with Federal requirements could potentially subject the District to a successful claim by the Federal Deposit Insurance Corporation (FDIC).

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

Eligible securities pledged to the District and deposited with a qualified trustee by the financial institution as security for repayment whose market value at all times shall be at least 105 percent of the deposits being secured; or

Participation in the Ohio Pooled Collateral System (OPCS), a collateral pool of eligible securities deposited with a qualified trustee and pledged to the Treasurer of State to secure the repayment of all public monies deposited in the financial institution. OPCS requires the total market value of the securities pledged to be 102 percent of the deposits being secured or a rate set by the Treasurer of State.

At December 31, 2017, \$170,143 of the District's bank balance of \$2,250,743 was exposed to custodial credit risk. Certain timing issues related to fluctuations in depository balances contributed to the uncollateralized balance. These insufficiencies were corrected the next business day.

Jefferson Water and Sewer District
Notes to the Basic Financial Statements
For the Years Ended December 31, 2017 and 2016

NOTE I – DEPOSITS WITH FINANCIAL INSTITUTIONS – LEGAL REQUIREMENTS (continued)

Investments The District had the following investments at December 31, 2017:

Description	Fair Value	Investment Maturities			
		< 1 Year	1-2 Years	3-5 Years	>5 Years
UBS Fixed Income	\$700,513	\$700,513	-	-	-
UBS Municipal Bonds	437,666	29,770	52,340	149,041	206,515
Star Ohio	51,539	51,539	-	-	-
Raymond James Fixed Income	498,323	149,892	149,232	199,199	-
Federal Farm Credit Bank Bonds	68,939	-	-	68,939	-
Federal Home Loan Mortgage Corporation Notes	99,457	-	-	99,457	-
Federal National Mortgage Association Notes/Bonds	98,227	-	-	98,227	-
Infinex Fixed Income	586,161	586,161	-	-	-
Infinex Mutual Funds	251,219	251,219	-	-	-
Total Investments	\$2,792,044	\$1,769,094	\$201,572	\$614,863	\$206,515

The District had the following investments at December 31, 2016:

Description	Fair Value	Investment Maturities			
		< 1 Year	1-2 Years	3-5 Years	>5 Years
UBS Fixed Income	\$ 1,128,033	\$ 1,128,033	\$ -	\$ -	\$ -
STAR Ohio	50,992	50,992	-	-	-
Well Fargo MM and Sweep Funds	771,643	771,643	-	-	-
Wells Fargo Municipal Bonds	334,258	20,605	42,549	271,104	-
Total Investments	\$ 2,284,926	\$ 1,971,273	\$ 42,549	\$ 271,104	\$ -

The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets. Level 2 inputs are significant other observable inputs. Level 3 inputs are significant unobservable inputs. The above table identifies the District's recurring fair value measurements as of December 31, 2017. All investments of the District are valued using quoted market prices (Level 1 inputs).

Interest rate risk – Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The District has no investment policy specifically dealing with interest rate risk. The District manages its exposure to declines in fair values by limiting the weighted average maturity of its investment portfolio to five years or less.

Jefferson Water and Sewer District
Notes to the Basic Financial Statements
For the Years Ended December 31, 2017 and 2016

NOTE I – DEPOSITS WITH FINANCIAL INSTITUTIONS – LEGAL REQUIREMENTS (continued)

Credit Risk – Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The District has no investment policy specifically dealing with credit risk. Investments in money market funds were rated AAAM by Standard & Poor’s, investments in municipal bonds were rated AAA, AA+, AA, AA-, A+, and A by Standard & Poor’s, investments in fixed income accounts were rated A by Standard & Poor’s, investments in Federal Home Loan Mortgage Corporations Notes, Federal Farm Credit Bank Bonds, and Federal National Mortgage Association Notes/Bonds were all rated AAA by Moody’s, and investments in STAR Ohio were rated AAAM by Standard & Poor’s.

Concentration of credit risk – Concentration of credit risk is the risk of loss attributed to the magnitude of a government’s investment in a single issuer. The District places no limit on the amount the District may invest in any one issuer. As of December 31, 2016, the District had invested 49% in fixed income funds, 15% municipal bonds and 34% in money market funds and 2% in STAR Ohio. As of December 31, 2017, the District had invested 64% in fixed income funds, 16% in municipal bonds, 2% in Federal Farm Credit Bank Bonds, 4% in Federal Home Loan Mortgage Corporation Notes/Bonds, 3% in Federal National Mortgage Association Notes/Bonds, and 2% in STAR Ohio.

Custodial credit risk is the risk that in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The District has no investment policy specifically dealing with custodial credit risk. All of the District’s securities are either insured and registered in the name of the District or at least registered in the name of the District.

NOTE J – RISK MANAGEMENT

The District is exposed to various risks of property and casualty losses, and injuries to employees.

The District insures against injuries to employees through the Ohio Bureau of Worker’s Compensation.

The District belongs to the Public Entities Pool of Ohio (PEP), a risk-sharing pool available to Ohio local governments. PEP provides property and casualty coverage for its members. York Insurance Services Group, Inc. (York) functions as the administrator of PEP and provides underwriting, claims, loss control, risk management, and reinsurance services for PEP. PEP is a member of the American Public Entity Excess Pool (APEEP), which is also administered by York. Member governments pay annual contributions to fund PEP. PEP pays judgments, settlements and other expenses resulting from covered claims that exceed the members’ deductibles.

Casualty and Property Coverage

APEEP provides PEP with an excess risk-sharing program. Under this arrangement, PEP retains insured risks up to an amount specified in the contracts. At December 31, 2017, the District contracted for the following insurance coverage:

Property	\$15,958,936
General Liability	5,000,000
Public Officials	5,000,000
Automobile	5,000,000
Employee Benefit Liability	1,000,000

The aforementioned casualty and property reinsurance agreement does not discharge PEP’s primary liability for claims payments on covered losses. Claims exceeding coverage limits are the obligation of the respective District.

Settled claims have not exceeded this commercial coverage in any of the past three years. There have been no significant reductions in insurance coverage from the previous year.

Jefferson Water and Sewer District
Notes to the Basic Financial Statements
For the Years Ended December 31, 2017 and 2016

NOTE J – RISK MANAGEMENT (continued)

Financial Position

PEP’s most recent financial statements (audited by other auditor’s) conform with generally accepted accounting principles, and reported the following assets, liabilities and net position at December 31, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Assets	\$42,182,281	\$38,307,677
Liabilities	(13,396,700)	(12,759,127)
Net Position	<u>\$28,785,581</u>	<u>\$25,548,550</u>

At December 31, 2016 and 2015, respectively, the liabilities above include approximately \$12.0 million and \$12.0 million of estimated incurred claims payable. The assets above also include approximately \$11.5 million and \$11.0 million of unpaid claims to be billed. The Pool’s membership increased from 520 members in 2015 to 520 members in 2016. These amounts will be included in future contributions from members when the related claims are due for payment. As of December 31, 2016 and 2015 respectively, the District’s share of these unpaid claims collectible in future years was approximately \$26,000 and \$25,000.

Based on discussions with PEP, the expected rates PEP charges to compute member contributions, which are used to pay claims as they become due, are not expected to change significantly from those used to determine the historical contributions detailed below. By contract, the annual liability of each member is limited to the amount of financial contributions required to be made to PEP for each year of membership.

<u>Contributions to PEP</u>	
<u>2017</u>	<u>2016</u>
\$42,854	\$40,763

After one year of membership, a member may withdraw on the anniversary of the date of joining PEP, if the member notifies PEP in writing 60 days prior to the anniversary date. Upon withdrawal, members are eligible for a full or partial refund of their capital contributions, minus the subsequent year’s contribution. Withdrawing members have no other future obligation to PEP. Also upon withdrawal, payments for all casualty claims and claim expenses become the sole responsibility of the withdrawing member, regardless of whether a claim occurred or was reported prior to the withdrawal.

Jefferson Water and Sewer District
Notes to the Basic Financial Statements
For the Years Ended December 31, 2017 and 2016

NOTE K – NEW ACCOUNTING PRINCIPLES

For fiscal year 2017, the District has implemented GASB Statement No. 78, Pensions Provided Through Certain Multiple-Employer Defined Benefit Pension Plans, GASB Statement No. 80, “Blending Requirements for Certain Component Units – An Amendment of GASB Statement No. 14 and GASB Statement No. 82, Pension Issues – An Amendment of GASB Statements No. 67, No. 68, and No. 73.

GASB Statement No. 78 establishes accounting and financial reporting standards for defined benefit pensions provided to the employees of state or local governmental employers through a cost-sharing multiple-employer defined benefit pension plan (cost-sharing pension plan) that meets the criteria in paragraph 4 of Statement 68 and that (a) is not a state or local governmental pension plan, (b) is used to provide defined benefit pensions both to employees of state or local governmental employers and to employees of employers that are not state or local governmental employers, and (c) has no predominant state or local governmental employer (either individually or collectively with other state or local governmental employers that provide pensions through the pension plan). The implementation of GASB Statement No. 78 did not have an effect on the financial statements of the District.

GASB Statement No. 80 improves the financial reporting by clarifying the financial statement presentation requirements for certain component units. This Statement applies to component units that are organized as no-for-profit corporations in which the primary government is the sole corporate member. The implementation of GASB Statement No. 80 did not have an effect on the financial statements of the District.

GASB Statement No. 82 addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payment made by employers to satisfy employee (plan member) contribution requirements. The implementation of GASB Statement No. 82 did not have an effect on the financial statements of the District.

Jefferson Water and Sewer District
Notes to the Basic Financial Statements
For the Years Ended December 31, 2017 and 2016

NOTE L – INFORMATION BY SEGMENT

The District maintains two segments which provide water and sewer services. Information by segment for the years ended December 31, 2017 and 2016 is as follows:

<u>2017 SEGMENT</u>	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
OPERATING REVENUES:			
Charges for services	\$2,083,270	\$2,603,272	\$4,686,542
Tap fees	252,000	335,170	587,170
Miscellaneous income	80,655	107,862	188,517
Total Operating Revenues	<u>2,415,925</u>	<u>3,046,304</u>	<u>5,462,229</u>
OPERATING EXPENSES:			
Plant operations	629,337	1,882,402	2,511,739
Salaries and payroll related expenses	540,479	675,386	1,215,865
General and administration expenses	157,690	190,232	347,922
Depreciation	575,513	329,079	904,592
Total Operating Expenses	<u>1,903,019</u>	<u>3,077,099</u>	<u>4,980,118</u>
Operating Income (Loss)	512,906	(30,795)	482,111
NONOPERATING INCOME AND (EXPENSES):			
Interest income	42,774	42,773	85,547
Intergovernmental	34,080	32,442	66,522
Interest expense	(270,021)	(154,398)	(424,419)
Total Nonoperating Income (Expenses)	<u>(193,167)</u>	<u>(79,183)</u>	<u>(272,350)</u>
Increase (Decrease) In Net Position before			
Capital Contributions	319,739	(109,978)	209,761
Capital Contributions - Donated Lines	301,738	238,832	540,570
Increase (Decrease) In Net Position	<u>\$621,477</u>	<u>\$128,854</u>	<u>\$750,331</u>
<u>2016 SEGMENT</u>	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
OPERATING REVENUES:			
Charges for services	\$2,074,170	\$2,480,114	\$4,554,284
Tap fees	269,257	312,052	581,309
Miscellaneous income	72,763	68,267	141,030
Total Operating Revenues	<u>2,416,190</u>	<u>2,860,433</u>	<u>5,276,623</u>
OPERATING EXPENSES:			
Plant operations	608,784	1,326,434	1,935,218
Salaries and payroll related expenses	499,519	597,283	1,096,802
General and administration expenses	125,953	144,876	270,829
Depreciation	726,343	216,959	943,302
Total Operating Expenses	<u>1,960,599</u>	<u>2,285,552</u>	<u>4,246,151</u>
Operating Income	455,591	574,881	1,030,472
NONOPERATING INCOME AND (EXPENSES):			
Interest income	24,035	24,035	48,070
Intergovernmental	89,025	40,146	129,171
Interest expense	(429,385)	(132,391)	(561,776)
Total Nonoperating Income (Expenses)	<u>(316,325)</u>	<u>(68,210)</u>	<u>(384,535)</u>
Increase In Net Position before			
Capital Contributions	139,266	506,671	645,937
Capital Contributions - Donated Lines	706,710	936,801	1,643,511
Increase In Net Position	<u>\$845,976</u>	<u>\$1,443,472</u>	<u>2,289,448</u>

Jefferson Water and Sewer District
Required Supplementary Information
Schedule of the District's Proportionate Share of the Net Pension Liability
Ohio Public Employees Retirement System
Last Four Years

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Total plan pension liability	\$ 99,817,932,954	\$ 91,534,580,978	\$ 89,017,348,266	\$ 86,407,229,435
Plan net position	<u>77,109,633,485</u>	<u>74,213,320,352</u>	<u>76,956,230,642</u>	<u>74,618,532,269</u>
Net pension liability	22,708,299,469	17,321,260,626	12,061,117,624	11,788,697,166
District's proportion of the net pension liability	0.004960%	0.004861%	0.004710%	0.004710%
District's proportionate share of the net pension liability	\$ 1,126,332	\$ 841,986	\$ 568,079	\$ 555,248
District's covered-employee payroll	\$ 666,142	\$ 617,425	\$ 577,408	\$ 595,946
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	169.08%	136.37%	98.38%	93.17%
Plan fiduciary net position as a percentage of the total pension liability	77.25%	81.08%	86.45%	86.36%

(1) Information prior to 2014 is not available.
Amounts presented as of the District's measurement date which is the prior fiscal year.

Jefferson Water and Sewer District
Required Supplementary Information
Schedule of District Contributions
Ohio Public Employees Retirement System
Last Ten Years

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
Contractually required contribution	\$ 89,557	\$ 79,937	\$ 74,091	\$ 69,289	\$ 77,473	\$ 55,561	\$ 50,484	\$ 43,775	\$ 36,966	\$ 33,952
Contributions in relation to the contractually required contribution	<u>(89,557)</u>	<u>(79,937)</u>	<u>(74,091)</u>	<u>(69,289)</u>	<u>(77,473)</u>	<u>(55,561)</u>	<u>(50,484)</u>	<u>(43,775)</u>	<u>(36,966)</u>	<u>(33,952)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered-employee payroll	\$ 688,900	\$ 666,142	\$ 617,425	\$ 577,408	\$ 595,946	\$ 555,610	\$ 504,840	\$ 500,286	\$ 476,981	\$ 485,029
Contributions as a percentage of covered employee payroll	13.00%	12.00%	12.00%	12.00%	13.00%	10.00%	10.00%	8.75%	7.75%	7.00%

Jefferson Water and Sewer District
Notes to the Required Supplementary Information
For the Year Ended December 31, 2017

Changes of benefit terms - There were no changes in benefit terms affecting the OPERS plan for the plan year ended December 31, 2017.

Changes in assumptions - There were changes in both demographic and economic assumptions, with the most notable being a reduction in the actuarially assumed rate of return from 8% down to 7.5%, for the defined benefit investments of the OPERS plan for the year ended December 31, 2017.



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*

Jefferson Water and Sewer District
Franklin County
6455 Taylor Road
Blacklick, Ohio 43004

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 Jefferson Water and Sewer District, Franklin County, (the District) as of and for the years ended December 31, 2017 and 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 October 18, 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

October 18, 2018

**JEFFERSON WATER AND SEWER DISTRICT
FRANKLIN COUNTY**

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2017**

Finding Number	Finding Summary	Status	Additional Information
2016-001	Financial Reporting – Material Weakness	Fully Corrected	The District has reviewed financial reporting procedures and made the necessary changes to ensure the financial statements are complete and accurate.

This page intentionally left blank.



Dave Yost • Auditor of State

JEFFERSON WATER AND SEWER DISTRICT

FRANKLIN COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
NOVEMBER 29, 2018**