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

## REGULAR AUDIT

## FOR THE YEARS ENDED DECEMBER 31, 2018 and 2017

OHIO AUDITOR OF STATE
KEITH FABER

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

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OHIO AUDITOR OF STATE
KEITH FABER

88 East Broad Street, 10th Floor
Columbus, Ohio 43215-3506
(614) 466-3402 or (800) 443-9275
CentralRegion@ohioauditor.gov

# INDEPENDENT AUDITOR'S REPORT

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

To the Board of Trustees:

### *Report on the Financial Statements*

We have audited the accompanying financial statements of Earnhart Hill Regional Water and Sewer District, Pickaway County, Ohio (the District), as of and for the years ended December 31, 2018 and 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

### *Management's Responsibility for the Financial Statements*

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

### *Auditor's Responsibility*

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

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

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

***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of Earnhart Hill Regional Water and Sewer District, Pickaway County, Ohio, as of December 31, 2018 and 2017, and the changes in its financial position and its cash flows for the years then ended in accordance with the accounting principles generally accepted in the United States of America.

***Emphasis of Matter***

As discussed in Note 16 to the financial statements, during 2018, the District adopted new accounting guidance in Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. We did not modify our opinion regarding this matter.

***Other Matters***

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require this presentation to include *management's discussion and analysis*, and schedules of net pension and other post-employment benefit liabilities and pension and other post-employment benefit contributions listed in the table of contents, to supplement the basic financial statements. Although this information is not part of the basic financial statements, the Governmental Accounting Standards Board considers it essential for placing the basic financial statements in an appropriate operational, economic, or historical context. We applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, consisting of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, to the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not opine or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to opine or provide any other assurance.

***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated May 20, 2019, 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.

Keith Faber

Keith Faber
Auditor of State

Columbus, Ohio

May 20, 2019

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

## Financial Highlights

- The total assets and deferred outflows of resources of the District exceeded liabilities and deferred inflows of resources on December 31, 2018 and 2017 by $18,755,739 and $18,329,068, respectively. The District's net position increased by $1,199,625 or 7% in 2018 and $700,373 or 4% in 2017.
- The District's operating revenues increased by $123,000 or 3% in 2018 and $370,504 or 10% in 2017. Operating expenses increased $270,545 or 7% in 2018 and $491,663 or 15% in 2017.
- In November 2018, the District entered into an obligation with the USDA Rural Development to issue three series of revenue bonds for the purpose of acquiring and constructing improvements to the District's River Drive Wastewater Treatment Plant with related equipment and appurtenances thereto. The Series 2018A bonds were issued in the amount of $4,959,000, with an interest rate of 2.75% for 40 years. The Series 2018B bonds were issued in the amount of $214,000, with an interest rate of 2.625% for 40 years. A grant in the amount of $369,000 will also be received in relation to this issuance. The Series 2018C bonds were issued in the amount of $1,000,000, with an interest rate of 3.125% for 40 years. A grant in the amount of $675,000 will also be received in relation to this issuance. None of these issuances have been drawn down in its entirety. The District issued no new long term debt in 2018.

## Overview of the Basic Financial Statements

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

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

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

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

## Net Position

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

Table 1

| | 2018 | 2017 | Change | % | 2016 | Change | % |
|---|---|---|---|---|---|---|---|
| Current & Other Assets | $5,335,680 | $4,454,274 | $881,406 | 20% | $4,519,892 | ($65,618) | (1%) |
| Capital Assets, Net | 24,906,844 | 24,072,140 | 834,704 | 3% | 23,224,754 | 847,386 | 4% |
| Total Assets | 30,242,524 | 28,526,414 | 1,716,110 | 6% | 27,744,646 | 781,768 | 3% |
| Deferred Outflows | 526,654 | 761,167 | (234,513) | (31%) | 562,382 | 198,785 | 35% |
| Current & Other Liabilities | 599,448 | 444,768 | 154,680 | 35% | 438,578 | 6,190 | 1% |
| Long-Term Liabilities | 10,179,400 | 9,651,278 | 528,122 | 5% | 9,362,594 | 288,684 | 3% |
| Total Liabilities | 10,778,848 | 10,096,046 | 682,802 | 7% | 9,801,172 | 294,874 | 3% |
| Deferred Inflows | 1,234,591 | 862,467 | 372,124 | 43% | 877,161 | (14,694) | (2%) |
| Net Position | | | | | | | |
| Net Investment in Capital Assets | 17,449,979 | 16,790,644 | 659,335 | 4% | 15,732,984 | 1,057,660 | 7% |
| Restricted | 305,298 | 305,298 | 0 | 0% | 305,298 | 0 | 0% |
| Unrestricted | 1,000,462 | 1,233,126 | (232,664) | (19%) | 1,590,413 | (357,287) | (22%) |
| Total Net Position | $18,755,739 | $18,329,068 | $426,671 | 2% | $17,628,695 | $700,373 | 4% |

The District's total net position increased $426,671 or 2% in 2018 and $700,373 or 4% in 2017. These increases were a result of excess revenues over expenses. Note that this comparison differs from the financial statements as comparative years were not restated for GASB 75, which will be further discussed below, which had a net decrease in beginning net position of $772,954. Restricted net position did not change in 2018 or 2017. Restricted net position is cash which is limited in use as part of the District's loan covenants. Net investment in capital assets increased by $659,335 or 4% in 2018 due primarily to additions of capital assets and repayments of debt principal that were only partially offset by depreciation expense. Net investment in capital assets increased by $1,057,660 or 7% in 2017 due primarily to additions of capital assets and repayments of debt principal that were only partially offset by depreciation expense and disposals. Unrestricted net position decreased $232,664 or 19% in 2018 due to a decrease in deferred outflows of resources, an increase in deferred inflows of resources and the recognition of net OPEB liability in 2018 due to the GASB 75 implementation (discussed below), which was only partially offset by a decrease in net pension liability. Unrestricted net position decreased $357,287 or 22% in 2017 due to an increase in net pension liability, which was only partially offset by an increase in deferred outflows of resources.

The net pension liability (NPL) is a significant liability reported by the District at December 31, 2018 and is reported pursuant to GASB Statement 68, "Accounting and Financial Reporting for Pensions—an Amendment of GASB Statement 27." For 2018, the District adopted GASB Statement 75, "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions," which significantly revises accounting for costs and liabilities related to other postemployment benefits (OPEB). For reasons discussed below, many end users of these financial statements will gain a clearer understanding of the District's actual financial condition by adding deferred inflows related to pension and OPEB, the net pension liability and the net OPEB liability to the reported net position and subtracting deferred outflows related to pension and OPEB.

Governmental Accounting Standards Board standards are national and apply to all government financial reports prepared in accordance with generally accepted accounting principles. Prior accounting for pensions (GASB 27) and postemployment benefits (GASB 45) focused on a funding approach. This approach limited pension and OPEB costs to contributions annually required by law, which may or may not be sufficient to fully fund the plan's *net pension liability* or *net OPEB liability*. GASB 68 and GASB 75 take an earnings approach to pension and OPEB accounting; however, the nature of Ohio's statewide pension/OPEB plans and state law governing those systems requires additional explanation in order to properly understand the information presented in these statements.

GASB 68 and GASB 75 require the net pension liability and the net OPEB liability to equal the District's proportionate share of the plan's collective:

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

GASB notes that pension and OPEB 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 and other postemployment benefits. GASB noted that the unfunded portion of this 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 these liabilities. In Ohio, the employee shares the obligation of funding pension benefits with the employer. Both employer and employee contribution rates are capped by State statute. A change in these caps requires action of both Houses of the General Assembly and approval of the Governor. Benefit provisions are also determined by State statute. The Ohio Revised Code permits, but does not require the retirement system to provide healthcare to eligible benefit recipients. The retirement system may allocate a portion of the employer contributions to provide for these OPEB benefits.

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 retirement system. In Ohio, there is no legal means to enforce the unfunded liability of the pension/OPEB plan *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 retirement system is responsible for the administration of the pension and OPEB plans.

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 or the net OPEB liability. As explained above, changes in benefits, contribution rates, and return on investments affect the balance of these liabilities, 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 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 and the net OPEB liability are satisfied, these liabilities are separately identified within the long-term liability section of the statement of net position.

In accordance with GASB 68 and GASB 75, the District's statements prepared on an accrual basis of accounting include an annual pension expense and an annual OPEB expense for their proportionate share of the plan's *change* in net pension liability and net OPEB liability, respectively, not accounted for as deferred inflows/outflows.

As a result of implementing GASB 75, the District is reporting a net OPEB liability and deferred inflows/outflows of resources related to OPEB on the accrual basis of accounting. This implementation also had the effect of restating net position at December 31, 2017 from $18,329,068 to $17,556,114.

**Statement of Revenues, Expenses and Changes in Net Position**

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

Table 2

| | 2018 | 2017 | Change | % | 2016 | Change | % |
|---|---|---|---|---|---|---|---|
| Operating Revenues | $4,192,388 | $4,069,388 | $123,000 | 3% | $3,698,884 | $370,504 | 10% |
| Total Operating Revenues | 4,192,388 | 4,069,388 | 123,000 | 3% | 3,698,884 | 370,504 | 10% |
| | | | | | | | |
| Treatment Expenses | 294,091 | 320,996 | (26,905) | (8%) | 292,010 | 28,986 | 10% |
| Power | 285,856 | 257,831 | 28,025 | 11% | 235,946 | 21,885 | 9% |
| Distribution | 970,953 | 879,423 | 91,530 | 10% | 708,445 | 170,978 | 24% |
| Customer Accounting | 343,788 | 314,276 | 29,512 | 9% | 300,572 | 13,704 | 5% |
| Transportation | 65,223 | 57,316 | 7,907 | 14% | 39,437 | 17,879 | 45% |
| Fringe Benefits | 712,130 | 654,460 | 57,670 | 9% | 446,889 | 207,571 | 46% |
| Depreciation & Amortization | 1,010,390 | 970,114 | 40,276 | 4% | 925,407 | 44,707 | 5% |
| Administration & General | 418,360 | 375,830 | 42,530 | 11% | 389,877 | (14,047) | (4%) |
| Total Operating Expenses | 4,100,791 | 3,830,246 | 270,545 | 7% | 3,338,583 | 491,663 | 15% |
| | | | | | | | |
| Operating Income | 91,597 | 239,142 | (147,545) | (62%) | 360,301 | (121,159) | -34% |
| | | | | | | | |
| Non-Operating Revenues | 721,489 | 388,824 | 332,665 | 86% | 263,044 | 125,780 | 48% |
| Non-Operating Expenses | 202,950 | 206,500 | (3,550) | (2%) | 277,281 | (70,781) | (26%) |
| Capital Contributions | 589,489 | 278,907 | 310,582 | 111% | 51,121 | 227,786 | 446% |
| | | | | | | | |
| Changes in Net Position | 1,199,625 | 700,373 | 499,252 | 71% | 397,185 | 303,188 | 76% |
| | | | | | | | |
| Net Position at Beginning of Year-Restated | 17,556,114 | 17,628,695 | (72,581) | 0% | 17,231,510 | 397,185 | 2% |
| Net Position at End of Year | $18,755,739 | $18,329,068 | $426,671 | 2% | $17,628,695 | $700,373 | 4% |

Operating revenues increased $123,000 or 3% in 2018 and $370,504 or 10% in 2017. The increase in 2018 was due to an increase in rates. The increase in 2017 was due to an increase in rates and an increase of 14.6 million gallons in water sales and 0.9 million gallons in sewer sales. Capital contributions will fluctuate from year to year depending on construction activity, and improvement projects that may qualify for special assessment and/or grant monies. The District recorded $589,489 and $278,907 in capital contributions in 2018 and 2017, respectively. In 2018, the District received 3 main water line extensions from developers. In 2017, the District received 3 main water line extensions and 1 sewer line extension from developers. Operating expenses, excluding depreciation, increased by $230,269 or 8% in 2018 and $446,956 or 19% in 2017. Increases of $91,530 in distribution expenses and $57,670 in fringe benefit expenses accounted for most of the increase in 2018. Increases of $170,978 in distribution expenses and $207,571 in fringe benefit expenses accounted for most of the increase in 2017. Fringe benefits increased significantly each year due to the increase in the District's proportionate share of the state-wide net pension liability each year and/or for the recognition of a net OPEB liability in 2018.

**Capital Assets**

Table 3 summarizes the changes in capital assets.

Table 3

| | 2018 | 2017 | Change | % | 2016 | Change | % |
|---|---|---|---|---|---|---|---|
| Land | $841,797 | $841,797 | $0 | 0% | $841,797 | $0 | 0% |
| Buildings | 1,877,086 | 1,877,086 | 0 | 0% | 1,234,731 | 642,355 | 52% |
| Treatment Facilities | 6,646,750 | 6,563,047 | 83,703 | 1% | 6,472,211 | 90,836 | 1% |
| Transmission, Storage & Collection | 26,191,024 | 24,713,586 | 1,477,438 | 6% | 24,042,089 | 671,497 | 3% |
| Vehicles | 524,818 | 396,671 | 128,147 | 32% | 367,926 | 28,745 | 8% |
| Furniture & Equipment | 713,867 | 564,048 | 149,819 | 27% | 569,597 | (5,549) | (1%) |
| Construction in Progress | 1,016,670 | 1,010,683 | 5,987 | 1% | 656,111 | 354,572 | 54% |
| Total Before Depreciation | 37,812,012 | 35,966,918 | 1,845,094 | 5% | 34,184,462 | 1,782,456 | 5% |
| Accumulated Depreciation | (12,905,168) | (11,894,778) | (1,010,390) | 8% | (10,959,708) | (935,070) | 9% |
| Total Capital Assets, Net | $24,906,844 | $24,072,140 | $834,704 | 3% | $23,224,754 | $847,386 | 4% |

Capital assets (before depreciation) increased $1,845,094 or 5% in 2018 and increased $1,782,456 or 5% in 2017. Total capital assets, net increased $834,704 or 3% in 2018 and increased $847,386 or 4% in 2017. The increase in 2018 is due to additions exceeding depreciation for the year. The increase in 2017 is due to additions exceeding depreciation and disposals for the year. For additional information regarding capital assets, please see note 7 of the notes to the basic financial statements.

**Debt**

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

Table 4 summarizes the changes in long-term debt.

Table 4

| | 2018 | 2017 | Change | % | 2016 | Change | % |
|---|---|---|---|---|---|---|---|
| Rural Development Bonds | $5,465,786 | $5,181,472 | $284,314 | 5% | $5,282,950 | ($101,478) | (2%) |
| OWDA Loans | 1,766,079 | 1,850,024 | (83,945) | (4%) | 1,933,820 | (83,796) | (4%) |
| OPWC Loan | 225,000 | 250,000 | (25,000) | (10%) | 275,000 | (25,000) | (9%) |
| Rotary Commission Loan | 821,966 | 821,966 | 0 | 0% | 821,966 | 0 | 0% |
| Total Long-Term Debt | 8,278,831 | 8,103,462 | 175,369 | 2% | 8,313,736 | (210,274) | (3%) |
| Less | | | | | | | |
| Current Maturities | 304,518 | 214,575 | 89,943 | 42% | 210,398 | 4,177 | 2% |
| Net Total Long-Term Debt | $7,974,313 | $7,888,887 | $85,426 | 1% | $8,103,338 | ($214,451) | (3%) |

Net long-term debt increased by $85,426 or 1% in 2018 due to new bonds issued during the year, which was partially offset by scheduled principal payments. Net long-term debt decreased by $214,451 or 3% in 2017 due to scheduled principal payments. For additional information regarding debt, please see note 6 of the notes to the basic financial statements.

**Cash**

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

Table 5

| | 2018 | 2017 | Change | % | 2016 | Change | % |
|---|---|---|---|---|---|---|---|
| Unrestricted Cash and Cash Equivalents | $3,460,476 | $2,510,573 | $949,903 | 38% | $2,536,010 | ($25,437) | (1%) |
| Cash Restricted for Debt Service | 305,298 | 305,298 | 0 | 0% | 305,298 | 0 | 0% |
| Total Cash | $3,765,774 | $2,815,871 | $949,903 | 34% | $2,841,308 | ($25,437) | (1%) |

Unrestricted cash and cash equivalents increased $949,903 or 38% in 2018, due mainly to revenues in excess of expenses, and decreased $25,437 or 1% in 2017, due mainly to expenses in excess of revenues. Cash restricted for debt service remained the same between 2016, 2017 and 2018.

**Current Financial Related Activities**

In 2018, the District implemented a Sewer Facility Charge increase of $5.79 for the Stoutsville/Tarlton service area. In 2018, the District also implemented a Water Usage Charge increase of 3% and Sewer Usage Charge increases of 10% for the Circleville/Pickaway service area as well as the Stoutsville/Tarlton service area.

**Contact Information**

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

**Earnhart Hill Regional Water and Sewer District**

*Statements of Net Position*

*As of December 31, 2018 and 2017*

| | 2018 | 2017 |
|---|---|---|
| **Current assets** | | |
| Cash and cash equivalents | $3,460,476 | $2,510,573 |
| Accounts receivable | 435,879 | 476,288 |
| Assessments receivable | 993,810 | 1,032,289 |
| Accrued interest receivable | 3,851 | 0 |
| Inventories | 121,529 | 115,054 |
| Prepaid expenses | 14,837 | 14,772 |
| *Total current assets* | 5,030,382 | 4,148,976 |
| **Noncurrent assets** | | |
| Restricted assets: | | |
| Cash and cash equivalents-debt service reserve | 305,298 | 305,298 |
| *Total restricted assets* | 305,298 | 305,298 |
| **Capital assets** | | |
| Land and land easements | 841,797 | 841,797 |
| Buildings | 1,877,086 | 1,877,086 |
| Treatment facilities | 6,646,750 | 6,563,047 |
| Transmission, storage and collection | 26,191,024 | 24,713,586 |
| Vehicles | 524,818 | 396,671 |
| Furniture and equipment | 713,867 | 564,048 |
| Construction in progress | 1,016,670 | 1,010,683 |
| *Total capital assets* | 37,812,012 | 35,966,918 |
| Less: accumulated depreciation | (12,905,168) | (11,894,778) |
| *Capital assets, net* | 24,906,844 | 24,072,140 |
| *Total assets* | 30,242,524 | 28,526,414 |
| **Deferred outflows of resources** | | |
| Pension | 448,680 | 761,167 |
| OPEB | 77,974 | 0 |
| *Total deferred outflows of resources* | $526,654 | $761,167 |

(continued)

**Earnhart Hill Regional Water and Sewer District**
*Statements of Net Position (Continued)*
*As of December 31, 2018 and 2017*

| | 2018 | 2017 |
|---|---|---|
| **Current liabilities** | | |
| Accounts payable | $110,012 | $9,097 |
| Prepaid taps and main line extensions | 97,641 | 97,641 |
| Customer deposits | 23,745 | 23,775 |
| Current portion of USDA revenue bonds payable | 195,420 | 105,629 |
| Current portion of OWDA loans payable | 84,098 | 83,946 |
| Current portion of OPWC loans payable | 25,000 | 25,000 |
| Accrued payroll | 43,448 | 35,804 |
| Intergovernmental payable | 2,012 | 36,020 |
| Retainage payable | 0 | 10,007 |
| Accrued interest payable | 18,072 | 17,849 |
| *Total current liabilities* | 599,448 | 444,768 |
| **Long-term liabilities** | | |
| Revenue bonds payable USDA (net of current portion) | 5,270,366 | 5,075,843 |
| Loans payable OWDA (net of current portion) | 1,681,981 | 1,766,078 |
| Loans payable OPWC (net of current portion) | 200,000 | 225,000 |
| Notes payable Rotary Loan | 821,966 | 821,966 |
| Net pension liability | 1,339,604 | 1,762,391 |
| Net OPEB liability | 865,483 | 0 |
| *Total long-term liabilities* | 10,179,400 | 9,651,278 |
| *Total liabilities* | 10,778,848 | 10,096,046 |
| **Deferred inflows of resources** | | |
| Assessments-construction-agricultural | 851,715 | 851,715 |
| Pension | 317,312 | 10,752 |
| OPEB | 65,564 | 0 |
| *Total deferred inflows of resources* | 1,234,591 | 862,467 |
| **Net position** | | |
| Net investment in capital assets | 17,449,979 | 16,790,644 |
| Restricted for debt service | 305,298 | 305,298 |
| Unrestricted | 1,000,462 | 1,233,126 |
| *Total net position* | $18,755,739 | $18,329,068 |

See accompanying notes to the basic financial statements.

**Earnhart Hill Regional Water and Sewer District**
*Statements of Revenues, Expenses and Changes in Net Position*
*For the Years Ended December 31, 2018 and 2017*

| | 2018 | 2017 |
|---|---|---|
| **Operating revenues** | | |
| Service charges | $4,073,545 | $3,929,807 |
| Other | 118,843 | 139,581 |
| *Total operating revenues* | 4,192,388 | 4,069,388 |
| **Operating expenses** | | |
| Treatment expense | 294,091 | 320,996 |
| Power | 285,856 | 257,831 |
| Distribution | 970,953 | 879,423 |
| Customer accounting | 343,788 | 314,276 |
| Transportation | 65,223 | 57,316 |
| Fringe benefits | 712,130 | 654,460 |
| Depreciation and amortization | 1,010,390 | 970,114 |
| Administrative and general | 418,360 | 375,830 |
| *Total operating expenses* | 4,100,791 | 3,830,246 |
| *Operating income* | 91,597 | 239,142 |
| **Nonoperating revenues (expenses)** | | |
| Capacity charges | 584,300 | 292,200 |
| Tap fee revenue | 92,286 | 48,211 |
| Interest income | 31,509 | 27,869 |
| Gain on sale of assets | 107 | 77 |
| Interest expense | (202,950) | (206,500) |
| Rental income | 13,287 | 20,467 |
| *Net nonoperating revenues (expenses)* | 518,539 | 182,324 |
| *Changes in net position before capital contributions* | 610,136 | 421,466 |
| Capital Contributions - developer | 589,489 | 278,907 |
| *Total capital contributions* | 589,489 | 278,907 |
| *Changes in net position* | 1,199,625 | 700,373 |
| *Net position, beginning of year-restated* | 17,556,114 | 17,628,695 |
| *Net position, end of year* | $18,755,739 | $18,329,068 |

See accompanying notes to the basic financial statements.

**Earnhart Hill Regional Water and Sewer District**

*Statements of Cash Flows*

*For the Years Ended December 31, 2018 and 2017*

| | 2018 | 2017 |
|---|---|---|
| **Cash flows from operating activities** | | |
| Cash received from customers | $4,113,954 | $3,922,517 |
| Cash paid for employee salaries and benefits | (1,431,205) | (1,163,320) |
| Cash payments to suppliers for goods and services | (1,314,806) | (1,392,400) |
| Cash received from other receipts | 118,843 | 139,581 |
| *Net cash provided by operating activities* | 1,486,786 | 1,506,378 |
| **Cash flows from noncapital and related financial activities** | | |
| Refundable line extensions | 0 | 7,654 |
| Deposits received (returned) | (30) | (475) |
| *Net cash provided by (used for) noncapital and related financing activities* | (30) | 7,179 |
| **Cash flows from capital and related financing activities** | | |
| Tap fees | 92,286 | 48,211 |
| Capacity charges | 584,300 | 292,200 |
| Rental income | 13,287 | 20,467 |
| Proceeds from revenue bonds | 390,499 | 0 |
| Revenue bond principal payments | (106,185) | (101,478) |
| Revenue bond interest payments | (199,051) | (203,075) |
| Loan principal payments | (108,945) | (108,796) |
| Loan interest payments | (3,676) | (3,827) |
| Special assessments received | 38,479 | 37,568 |
| Special assessment interest | 11,609 | 14,241 |
| Cash received for sale of assets | 107 | 77 |
| Proceeds from capital cash contributions | 589,489 | 278,907 |
| Capital outlay | (1,855,101) | (1,827,117) |
| *Net cash used for capital and related financing activities* | (552,902) | (1,552,622) |
| **Cash flows from investing activities** | | |
| Interest on cash and cash equivalents | 16,049 | 13,628 |
| *Net increase (decrease) in cash and cash equivalents* | 949,903 | (25,437) |
| *Cash and cash equivalents, beginning of year* | 2,815,871 | 2,841,308 |
| *Cash and cash equivalents, end of year* | $3,765,774 | $2,815,871 |

**Non-Cash Transactions:**

As of December 31, 2017, the District had retainage payable of $10,007 relating to a capitalized asset.

(continued)

**Earnhart Hill Regional Water and Sewer District**
*Statements of Cash Flows (Continued)*
*For the Years Ended December 31, 2018 and 2017*

| | 2018 | 2017 |
|---|---|---|
| **Reconciliation of operating income to net cash provided by operating activities:** | | |
| Operating income | $91,597 | $239,142 |
| **Adjustments to reconcile operating income to net cash provided by operating activities:** | | |
| Depreciation and amortization | 1,010,390 | 970,114 |
| **Changes in assets and liabilities:** | | |
| Decrease (increase) in accounts receivable | 40,409 | (7,290) |
| Decrease (increase) in inventories | (6,475) | 12,630 |
| Decrease (increase) in prepaid expenses | (65) | (2,727) |
| Increase (decrease) in accounts payable (trade only) | 100,915 | (8,034) |
| Increase (decrease) in accrued payroll | 7,644 | 9,472 |
| Increase (decrease) in intergovernmental payable | (34,008) | 3,415 |
| Decrease (increase) in deferred outflows of resources-pension | 312,487 | (198,785) |
| Decrease (increase) in deferred outflows of resources-OPEB | (67,041) | 0 |
| Increase (decrease) in deferred inflows of resources-pension | 306,560 | (14,694) |
| Increase (decrease) in deferred inflows of resources-OPEB | 65,564 | 0 |
| Increase (decrease) in net pension liability | (422,787) | 503,135 |
| Increase (decrease) in net OPEB liability | 81,596 | 0 |
| *Total adjustments* | 1,395,189 | 1,267,236 |
| *Net cash provided by operating activities* | $1,486,786 | $1,506,378 |

See accompanying notes to the basic financial statements.

**Note 1 – Nature of Organization and Reporting Entity**

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

**Reporting Entity**

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

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

**Note 2 – Summary of Significant Accounting Policies**

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

**Basis of Presentation - Fund Accounting**

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

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

The fund type that the District uses is described below:

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

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

**Basis of Accounting**

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

**Process**

The Ohio Revised Code requires that each fund be budgeted annually. The District adopted budgets and adopted and passed annual appropriations for the years ended December 31, 2018 and 2017.

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

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

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

**Revenue Recognition**

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

**Accounts Receivable**

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

**Restricted Assets**

As explained in Note 6, a restricted account was established for the required reserve for the Rural Development Loans and is recorded as a restricted asset in the accompanying basic financial statements.

**Capital Assets**

Capital assets are presented at cost or estimated historical cost. Contributed capital assets are recorded at their acquisition value as of the date received. These assets are depreciated over the following estimated useful lives:

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

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

**Cash and Cash Equivalents**

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

**Interest Expense**

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

**Interest Income**

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

**Inventory of Supplies**

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

**Prepaid Expenses**

Payments made to vendors for services that will benefit periods beyond December 31, 2018 and 2017 are recorded as prepaid items by using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expense is reported in the year in which services are consumed.

**Compensated Absences**

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the employer will compensate the employees for the benefits through paid time off or some other means. The amount of vacation leave liability was insignificant as of December 31, 2018 and 2017 and is not recorded in the accompanying basic financial statements. Sick leave benefits are not accrued as a liability as employees receive no payment for accrued sick leave upon termination or retirement.

**Intergovernmental Payable**

During 2017 and 2018, the District billed and collected sewer fees and penalties for the City of Circleville Sewer and Pickaway County Sewer. As of December 31, 2018, the District no longer provided this service for Pickaway County. Intergovernmental payable represents those amounts collected on behalf of the City of Circleville Sewer but not yet paid as of December 31, 2018 and for both districts as of December 31, 2017.

**Net Position**

Net position represents the difference between assets plus deferred outflows of resources and liabilities plus deferred inflows of resources. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvements of those assets. Net position is reported as restricted for debt service reserves as required by the Rural Development Loan requirements. The District applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available. None of the District's restricted net position as of December 31, 2018 and 2017 was restricted by enabling legislation.

**Operating Revenues and Expenses**

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

**Capital Contributions**

The District records capital contributions of capital assets or grants and other outside contributions restricted to capital acquisition and construction. During 2018 and 2017, the following capital contributions were received:

| | 2018 | 2017 |
|---|---|---|
| 2015-DEV02-Logistics Court | $154,962 | $0 |
| 2016-DEV02-Sofidel | 223,500 | 0 |
| 2017-DEV01-Northpoint/Tradeport | 211,027 | 0 |
| OCU Developer Line Extension | 0 | 97,652 |
| Loves Truck Stop Improvements | 0 | 125,000 |
| Kingston Mounds III Water Line Extensions | 0 | 33,950 |
| Kingston Mounds III Gravity Sewer | 0 | 22,305 |
| Totals | $589,489 | $278,907 |

**Deferred Inflows and Outflows of Resources**

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense) until then. The District has deferred outflows of resources related to pensions and other postemployment benefits, which are further discussed in notes 9 and 10.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The District has deferred inflows of resources related to special assessments, pensions, and other postemployment benefits. The $851,715 balance of the deferred inflow of resources for assessments at December 31, 2018 and 2017 will be recognized as revenue and increase unrestricted net position only when those properties assessed no longer qualify for agricultural status, as defined in Ohio Revised Code Chapter 929, and as certified by the County Auditor. The time frame for collection is therefore undeterminable. Deferred inflows related to pensions and other postemployment benefits will be further discussed in notes 9 and 10.

**Pensions/Other Postemployment Benefits (OPEB)**

For purposes of measuring the net pension/OPEB liability, deferred outflows of resources and deferred inflows of resources related to pensions/OPEB, and pension/OPEB expense, information about the fiduciary net position of the pension/OPEB plans and additions to/deductions from their fiduciary net position have been determined on the same basis as they are reported by the pension/OPEB 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/OPEB systems report investments at fair value.

**Comparative Information**

Comparative data for the prior year has been presented in the basic financial statements in order to provide an understanding of the changes in the District's financial position and operations. Such information includes sufficient detail to constitute a presentation in conformity with GAAP. Accordingly, such information should be read in conjunction with the District's basic financial statements for the year ended December 31, 2017, from which the comparative data was derived.

**Estimates**

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

**Note 3 – Deposits With Financial Institutions – Legal Requirements**

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

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

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

1. Notes, bills, bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities described in (1) or (2) provided the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio, and, with certain limitations including a requirement for maturity within ten years from the date of settlement, bonds and other obligations of political subdivisions of the State of Ohio, if training requirements have been met;
5. Time certificates of deposit or savings or deposit accounts, including, but not limited to, passbook accounts;
6. No-load money market mutual funds consisting exclusively of obligations described in divisions (1) and (2) of this footnote and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
7. The State Treasurer's investment pool (STAR Ohio); and
8. Certain bankers' acceptances (for a period not to exceed one hundred eighty days) and commercial paper notes (for a period not to exceed two hundred seventy days) in an amount not to exceed 40 percent of the interim monies available for investment at any one time if training requirements have been met.

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

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

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

*Deposits* Custodial credit risk is the risk that in the event of bank failure, the District will not be able to recover deposits or collateral securities that are in the possession of an outside party. As of December 31, 2018 and 2017, respectively, $500,000 and $250,000 of the District's bank balances of $3,895,117 and $3,109,170 were covered by federal depository insurance. The remaining balances were collateralized as discussed below. Although all State statutory requirements for the deposit of money have been followed, non-compliance with federal requirements could potentially subject the District to a successful claim by the FDIC.

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

**<u>Note 4 – Accounts Receivable</u>**

The following are accounts receivable balances presented by aging classifications as of December 31, 2018 and 2017:

| | 2018 | 2017 |
|---|---|---|
| Current receivables (0-30 days) | $322,052 | $346,063 |
| Delinquent receivables (31-60 days) | 42,917 | 29,827 |
| Delinquent receivables (over 60 days) | 15,710 | 37,705 |
| Total accounts receivable | $380,679 | $413,595 |

As of December 31, 2018 and 2017, the District also had miscellaneous receivables totaling $55,200 and $62,693, respectively.

## Note 5 – Assessments Receivable

The details for the years ended December 31, 2018 and 2017 are as follows:

| Construction Assessments | Total Assessment | Principal Collected From Prepaids and Auditor | Ending Receivable Balance | Percent Collected |
|---|---|---|---|---|
| 2018 | $2,102,001 | $1,108,191 | $993,810 | 52.7% |
| 2017 | 2,102,001 | 1,069,712 | 1,032,289 | 50.9% |

The assessment receivable balance at December 31, 2018 and 2017 includes deferred agricultural property construction assessments of $851,715. This amount is recorded as a deferred inflow of resource in the accompanying financial statements and will be collected when the properties no longer qualify for agricultural property status, as defined in the Ohio Revised Code Chapter 929, and as certified by the County Auditor. The time frame for collection is undeterminable.

## Note 6- Current and Long-Term Debt

Current and long term debts at December 31, 2018 are as follows:

| Payable To | Interest Rate | First Payment | Principal Term |
|---|---|---|---|
| Rural Development | 4.250% | 10/1/2003 | 39 yrs. |
| Rural Development | 3.375% | 12/1/2010 | 40 yrs. |
| Rural Development | 2.750% | 11/1/2019 | 40 yrs. |
| Rural Development | 2.625% | 11/1/2019 | 40 yrs. |
| Rural Development | 3.125% | 11/1/2019 | 40 yrs. |
| OWDA | 0.000% | 6/1/2009 | 30 yrs. |
| OWDA | 1.000% | 1/1/2010 | 30 yrs. |
| OPWC | 0.000% | 1/1/2010 | 20 yrs. |

| Loan # | Obligation | Interest Rate | Outstanding 12/31/2017 | Additions | Deletions | Outstanding 12/31/2018 | Due in One Year |
|---|---|---|---|---|---|---|---|
| 9106W | Rural Development | 4.250% | $2,907,472 | $0 | $65,185 | $2,842,287 | $68,005 |
| 9210S | Rural Development | 3.375% | 2,274,000 | 0 | 41,000 | 2,233,000 | 41,815 |
| 9212S | Rural Development | 2.750% | 0 | 20,000 | 0 | 20,000 | 69,600 |
| 9213S | Rural Development | 2.625% | 0 | 206,821 | 0 | 206,821 | 3,100 |
| 9215S | Rural Development | 3.125% | 0 | 163,678 | 0 | 163,678 | 12,900 |
| 4996 | OWDA | 0.000% | 1,478,609 | 0 | 68,772 | 1,409,837 | 68,773 |
| 4839 | OWDA | 1.000% | 371,415 | 0 | 15,173 | 356,242 | 15,325 |
| CQ30H | OPWC | 0.000% | 250,000 | 0 | 25,000 | 225,000 | 25,000 |
| | Rotary Loan | 0.000% | 821,966 | 0 | 0 | 821,966 | 0 |
| | Net Pension Liability | | 1,762,391 | 0 | 422,787 | 1,339,604 | 0 |
| | Net OPEB Liability* | | 783,887 | 81,596 | 0 | 865,483 | 0 |
| | | | $10,649,740 | $472,095 | $637,917 | $10,483,918 | $304,518 |

*As restated. See note 16 for additional information

| Loan # | Obligation | Interest Rate | Outstanding 12/31/2016 | Additions | Deletions | Outstanding 12/31/2017 | Due in One Year |
|---|---|---|---|---|---|---|---|
| 9106W | Rural Development | 4.250% | $2,969,950 | $0 | $62,478 | $2,907,472 | $65,180 |
| 9210S | Rural Development | 3.375% | 2,313,000 | 0 | 39,000 | 2,274,000 | 40,449 |
| 4996 | OWDA | 0.000% | 1,547,383 | 0 | 68,773 | 1,478,610 | 68,773 |
| 4839 | OWDA | 1.000% | 386,437 | 0 | 15,023 | 371,414 | 15,173 |
| CQ30H | OPWC | 0.000% | 275,000 | 0 | 25,000 | 250,000 | 25,000 |
| | Rotary Loan | 0.000% | 821,966 | 0 | 0 | 821,966 | 0 |
| | Net Pension Liability | | 1,259,256 | 503,135 | 0 | 1,762,391 | 0 |
| | | | $9,572,992 | $503,135 | $210,274 | $9,865,853 | $214,575 |

The debt listed with the United States Department of Agriculture, Rural Development is water system revenue bonds. The District is required to maintain a cash balance reserve to meet revenue bond requirements. This cash balance is reported as a restricted asset in the accompanying basic financial statements. The debt listed above with OWDA and OPWC are long-term loans. Principal and interest payments for Rural Development 9106W debt are due on the first day of each month. Principal and interest payments for Rural Development 9210S are due on December 1 of each year. Principal and interest payments for Rural Development 9212S, 9213S, and 9215S debt are due on November 1 of each year. Principal payments for OWDA 4996 and principal and interest payments for OWDA 4839 are due on January 1 and July 1 of each year. Principal payments for OPWC CQ30H are due on January 31 and July 1 of each year.

In April 2017, the District entered into an obligation with the USDA Rural Development to upgrade the River Drive Waste Water Treatment Plant. The loan will be in the amount of $4,959,000, with an interest rate of 2.75% for 40 years, with an expected project completion date of May 2019. In July 2017, the District entered into a second obligation with USDA Rural Development for the upgrade project. The loan will be in the amount of $214,000, with an interest rate of 2.625% for 40 years and a grant in the amount of $369,000. None of these funds were drawn in 2017. It is expected the loan will be signed in the first half of 2018.

In November 2018, the District entered into an obligation with the USDA Rural Development to issue three series of revenue bonds for the purpose of acquiring and constructing improvements to the District's River Drive Wastewater Treatment Plant with related equipment and appurtenances thereto. The Series 2018A bonds were issued in the amount of $4,959,000, with an interest rate of 2.75% for 40 years. The Series 2018B bonds were issued in the amount of $214,000, with an interest rate of 2.625% for 40 years. A grant in the amount of $369,000 will also be received in relation to this issuance. The Series 2018C bonds were issued in the amount of $1,000,000, with an interest rate of 3.125% for 40 years. A grant in the amount of $675,000 will also be received in relation to this issuance. None of these issuances have been drawn down in its entirety. As such, amortization schedules are not yet available.

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

| | OWDA | | | OPWC | | |
|---|---|---|---|---|---|---|
| Year | Principal | Interest | Total | Principal | Interest | Total |
| 2019 | $84,098 | $3,524 | $87,622 | $25,000 | $0 | $25,000 |
| 2020 | 84,252 | 3,371 | 87,623 | 25,000 | 0 | 25,000 |
| 2021 | 84,407 | 3,215 | 87,622 | 25,000 | 0 | 25,000 |
| 2022 | 84,564 | 3,059 | 87,623 | 25,000 | 0 | 25,000 |
| 2023 | 84,722 | 2,900 | 87,622 | 25,000 | 0 | 25,000 |
| 2024-2028 | 426,040 | 12,071 | 438,111 | 100,000 | 0 | 100,000 |
| 2029-2033 | 430,242 | 7,869 | 438,111 | 0 | 0 | 0 |
| 2034-2038 | 434,660 | 3,451 | 438,111 | 0 | 0 | 0 |
| 2039 | 53,094 | 140 | 53,234 | 0 | 0 | 0 |
| Totals | $1,766,079 | $39,600 | $1,805,679 | $225,000 | $0 | $225,000 |

| | Water System Revenue Bond | | |
|---|---|---|---|
| Year | Principal | Interest | Total |
| 2019 | $109,819 | $194,866 | $304,685 |
| 2020 | 114,178 | 190,508 | 304,686 |
| 2021 | 118,711 | 185,974 | 304,685 |
| 2022 | 123,428 | 181,257 | 304,685 |
| 2023 | 128,335 | 176,351 | 304,686 |
| 2024-2028 | 722,474 | 800,953 | 1,523,427 |
| 2029-2033 | 878,470 | 644,958 | 1,523,428 |
| 2034-2038 | 1,068,669 | 454,759 | 1,523,428 |
| 2039-2043 | 1,180,098 | 224,168 | 1,404,266 |
| 2044-2048 | 512,863 | 73,124 | 585,987 |
| 2049 | 118,242 | 9,688 | 127,930 |
| Totals | $5,075,287 | $3,136,606 | $8,211,893 |

In connection with the Rural Development Bonds, OPWC, and OWDA loans listed above, the District has pledged future customer revenues, net of specified operating expenses, to repay this debt. Pledged revenues of a given year may also include specified portions of cash balances carried over from the prior year. The bonds payable, through their final maturities as listed above, solely from net revenues. Total interest and principal remaining to be paid on these bonds and loans is $10,633,071. For the current year, net revenue available, principal and interest paid and the coverage ratio are as follows: $1,101,987; $417,857; and 0.38.

An $821,966 long-term note is payable to the Water and Sewer Rotary Commission with no annual interest rate. The loan was obtained to enable the District to make debt service payments on OWDA loans while these properties remain in agricultural status. The term is in effect as long as the properties listed as agricultural status pertaining to this loan do not change. If such properties do not qualify as agricultural status, their assessment is collected by the District and payable to the Water and Sewer Rotary Commission within ten days after the status has changed. The agreement was originally entered into on June 6, 1995 by SCIPPO Sewer District but was absorbed by Earnhart Hill Regional Water & Sewer District when it purchased SCIPPO in June 2009. No amortization schedule is provided for this note. There were no payments due to the Water and Sewer Rotary Commission for the years ended December 31, 2018 and 2017.

## Note 7 – Capital Assets

Capital assets activity for the years ended December 31, 2018 and 2017 was as follows:

| | Ending Balance 12/31/17 | Additions | Deletions | Ending Balance 12/31/18 |
|---|---|---|---|---|
| *Capital Assets, Not Being Depreciated* | | | | |
| Land and Land Easements | $841,797 | $0 | $0 | $841,797 |
| Construction in Progress | 1,010,683 | 1,071,226 | (1,065,239) | 1,016,670 |
| *Total Capital Assets, Not Being Depreciated* | 1,852,480 | 1,071,226 | (1,065,239) | 1,858,467 |
| | | | | |
| *Capital Assets Being Depreciated* | | | | |
| Buildings | 1,877,086 | 0 | 0 | 1,877,086 |
| Treatment Facilities | 6,563,047 | 83,703 | 0 | 6,646,750 |
| Transmission & Storage & Collection | 24,713,586 | 1,477,438 | 0 | 26,191,024 |
| Vehicles | 396,671 | 128,147 | 0 | 524,818 |
| Furniture and Equipment | 564,048 | 149,819 | 0 | 713,867 |
| *Total Capital Assets, Being Depreciated* | 34,114,438 | 1,839,107 | 0 | 35,953,545 |
| | | | | |
| *Less Accumulated Depreciation:* | | | | |
| Buildings | (698,930) | (64,303) | 0 | (763,233) |
| Treatment Facilities | (2,992,017) | (232,882) | 0 | (3,224,899) |
| Transmission & Storage & Collection | (7,483,828) | (626,473) | 0 | (8,110,301) |
| Vehicles | (302,023) | (44,330) | 0 | (346,353) |
| Furniture and Equipment | (417,980) | (42,402) | 0 | (460,382) |
| *Total Capital Assets Being Depreciated, Net* | (11,894,778) | (1,010,390) | 0 | (12,905,168) |
| | | | | |
| *Total Capital Assets, Net* | $24,072,140 | $1,899,943 | ($1,065,239) | $24,906,844 |

| | Ending Balance 12/31/16 | Additions | Deletions | Ending Balance 12/31/17 |
|---|---|---|---|---|
| *Capital Assets, Not Being Depreciated* | | | | |
| Land and Land Easements | $841,797 | $0 | $0 | $841,797 |
| Construction in Progress | 656,111 | 1,434,142 | (1,079,570) | 1,010,683 |
| *Total Capital Assets, Not Being Depreciated* | 1,497,908 | 1,434,142 | (1,079,570) | 1,852,480 |
| | | | | |
| *Capital Assets Being Depreciated* | | | | |
| Buildings | 1,234,731 | 642,355 | 0 | 1,877,086 |
| Treatment Facilities | 6,472,211 | 90,836 | 0 | 6,563,047 |
| Transmission & Storage & Collection | 24,042,089 | 687,286 | (15,789) | 24,713,586 |
| Vehicles | 367,926 | 28,745 | 0 | 396,671 |
| Furniture and Equipment | 569,597 | 13,706 | (19,255) | 564,048 |
| *Total Capital Assets, Being Depreciated* | 32,686,554 | 1,462,928 | (35,044) | 34,114,438 |
| | | | | |
| *Less Accumulated Depreciation:* | | | | |
| Buildings | (642,007) | (56,923) | 0 | (698,930) |
| Treatment Facilities | (2,759,095) | (232,922) | 0 | (2,992,017) |
| Transmission & Storage & Collection | (6,906,376) | (593,241) | 15,789 | (7,483,828) |
| Vehicles | (247,330) | (54,693) | 0 | (302,023) |
| Furniture and Equipment | (404,900) | (32,335) | 19,255 | (417,980) |
| *Total Capital Assets Being Depreciated, Net* | (10,959,708) | (970,114) | 35,044 | (11,894,778) |
| | | | | |
| *Total Capital Assets, Net* | $23,224,754 | $1,926,956 | ($1,079,570) | $24,072,140 |

## Note 8 – Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors and omissions; injuries to employees; and natural disasters. During 2018 and 2017, the District contracted with Rinehart, Walters, Danner Insurance and the Ohio Plan for liability, property, and related insurance. Coverages provided by the program as of December 31 are as follows:

| | 2018 | 2017 |
|---|---|---|
| General Liability | $6,000,000 per occurrence | $5,000,000 per occurrence |
| | $8,000,000 aggregate | $7,000,000 aggregate |
| Public Officials Liability | $6,000,000 per occurrence | $5,000,000 per occurrence |
| | $8,000,000 aggregate | $7,000,000 aggregate |
| Automobile Liability | $6,000,000 | $5,000,000 |
| Property, Boiler & Machinery | $14,713,659 | $13,121,020 |
| Inland Marine | $525,977 | $375,354 |
| Electronic Media | $164,153 | $161,727 |
| Faithful Performance & Employee Bond | $713,000 | $425,000 |

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

Medical Mutual of Ohio provided health insurance during 2018 and 2017. Workers' compensation benefits are provided through the State Bureau of Workers' Compensation.

## Note 9 – Defined Benefit Retirement Plan

### Net Pension Liability

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

The net pension liability represents the District's proportionate share of 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.

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

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

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

### 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/defined contribution pension plan. While members (e.g. District employees) may elect the member-directed plan and the combined plan, substantially all employee members are in OPERS' traditional plan; therefore, the following disclosure focuses on the traditional pension plan.

OPERS provides retirement, disability, survivor and death benefits, and annual cost of living adjustments to members of the traditional plan. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report that includes financial statements, required supplementary information and detailed information about OPERS' fiduciary net position that may be obtained by visiting https://www.opers.org/financial/reports.shtml#CAFR, by writing to OPERS, 277 East Town Street, Columbus, Ohio 43215-4642, or by calling 614-222-5601 or 800-222-7377.

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

OPERS CAFR referenced above for additional information, including requirements for reduced and unreduced benefits):

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

Defined contribution plan benefits are established in the plan documents, which may be amended by the Board. Member-directed plan and combined plan members who have met the retirement eligibility requirements may apply for retirement benefits. The amount available for defined contribution benefits in the combined plan consists of the member's contributions plus or minus the investment gains or losses resulting from the member's investment selections. Combined plan members wishing to receive benefits must meet the requirements for both the defined benefit and defined contribution plans. Member-directed participants must have attained the age of 55, have money on deposit in the defined contribution plan and have terminated public service to apply for retirement benefits. The amount available for defined contribution benefits in the member-directed plan consists of the members' contributions, vested employer contributions and investment gains or losses resulting from the members' investment selections. Employer contributions and associated investment earnings vest over a five-year period, at a rate of 20 percent each year. At retirement, members may select one of several distribution options for payment of the vested balance in their individual OPERS accounts. Options include the purchase of a monthly defined benefit annuity from OPERS (which includes joint and survivor options), partial lump-sum payments (subject to limitations), a rollover of the vested account balance to another financial institution, receipt of entire account balance, net of taxes withheld, or a combination of these options.

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

| | 2018 State and Local | 2017 State and Local |
|---|---|---|
| *Statutory Maximum Contribution Rates* | | |
| Employer | 14.0 % | 14.0 % |
| Employee | 10.0 % | 10.0 % |
| | | |
| *Actual Contribution Rates* | | |
| Employer: | | |
| Pension | 14.0 % | 13.0 % |
| Post-Employment Health Care Benefits | 0.0 | 1.0 |
| Total Employer | 14.0 % | 14.0 % |
| Employee | 10.0 % | 10.0 % |

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

The District's contractually required contributions were $179,321 and $142,119 for 2018 and 2017, respectively.

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

The net pension liabilities for OPERS were measured as of December 31, 2017 and 2016, respectively, and the total pension liabilities used to calculate the net pension liabilities were determined by an actuarial valuation as of those dates. The District's proportion of the net pension liabilities were based on the District's share of contributions to the pension plan relative to the contributions of all participating entities. The following is information related to the proportionate share and pension expense:

| | 2018 | 2017 |
|---|---|---|
| Proportion of the Net Pension Liability: | | |
| Current Measurement Date | 0.008539% | 0.007761% |
| Prior Measurement Date | 0.007761% | 0.007270% |
| Change in Proportionate Shre | 0.000778% | 0.000491% |
| | | |
| Proportionate Share of the: | | |
| Net Pension Liability | $1,339,604 | $1,762,391 |
| Pension Expense | $375,581 | $431,775 |

At December 31, 2018 and 2017, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | 2018 | 2017 |
|---|---|---|
| *Deferred Outflows of Resources* | | |
| Differences between expected and actual experience | $1,368 | $2,389 |
| Changes of assumptions | 160,092 | 279,537 |
| Net difference between projected and actual earnings on pension plan investments | 0 | 262,464 |
| Changes in proportion and differences between District contributions and proportionate share of contributions | 107,899 | 74,658 |
| District contributions subsequent to the measurement date | 179,321 | 142,119 |
| Total Deferred Outflows of Resources | $448,680 | $761,167 |
| | | |
| *Deferred Inflows of Resources* | | |
| Differences between expected and actual experience | $26,401 | $10,490 |
| Net difference between projected and actual earnings on pension plan investments | 287,592 | 0 |
| Changes in proportion and differences between District contributions and proportionate share of contributions | 3,319 | 262 |
| Total Deferred Inflows of Resources | $317,312 | $10,752 |

$179,321 and $142,119 reported as deferred outflows of resources related to pension resulting from District contributions subsequent to the measurement date as of December 31, 2018 and 2017, respectively, will be recognized as a reduction of the net pension liability in the years ending December 31, 2019 and 2018, respectively. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension for the year ended December 31, 2018 will be recognized in pension expense as follows:

| Year Ending December 31: | |
|---|---|
| 2019 | $184,616 |
| 2020 | 12,107 |
| 2021 | (128,268) |
| 2022 | (116,408) |
| Total | ($47,953) |

**Actuarial Assumptions**

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

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employers and plan members) and include the types of benefits provided at the time of each valuation. The total pension liability was determined by an actuarial valuation as of December 31, 2017 and 2016, using the following actuarial assumptions applied to all periods included in the measurement in accordance with the requirements of GASB 67. Key methods and assumptions used in the latest actuarial valuation, reflecting experience study results, prepared as of December 31, 2017 and 2016 are presented below.

| | 2017 and 2016 |
|---|---|
| Wage Inflation | 3.25 percent |
| Future Salary Increases, including inflation | 3.25 to 10.75 percent including wage inflation |
| COLA or Ad Hoc COLA | Pre-1/7/2013 retirees: 3 percent, simple<br>Post-1/7/2013 retirees: 3 percent, simple through 2018, then 2.15 percent |
| Investment Rate of Return | 7.5 percent |
| Actuarial Cost Method | Individual Entry Age |

Pre-retirement mortality rates are based on the RP-2014 Employees mortality table for males and females, adjusted for mortality improvement back to the observation period base year of 2006. The base year for males and females was then established to be 2015 and 2010, respectively. Post-retirement mortality rates are based on the RP-2014 Healthy Annuitant mortality table for males and females, adjusted for mortality improvement back to the observation period base year of 2006. The base year for males and females was then established to be 2015 and 2010, respectively. Post-retirement mortality rates for disabled retirees are based on the RP-2014 Disabled mortality table for males and females, adjusted for mortality improvement back to the observation period base year of 2006. The base year for males and females was then established to be 2015 and 2010, respectively. Mortality rates for a particular calendar year are determined by applying the MP-2015 mortality improvement scale to all of the above described tables.

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

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

For the year ended December 31, 2017, OPERS managed investments in three investment portfolios: the Defined Benefit portfolio, the Health Care portfolio, and the Defined Contribution portfolio. The Defined Benefit portfolio contains the investment assets for the Traditional Pension Plan, the defined benefit component of the Combined Plan and the annuitized accounts of the Member-Directed Plan. Within the Defined Benefit portfolio, contributions into the plans are all recorded at the same time, and benefit payments all occur on the first of the month. Accordingly, the money-weighted rate of return is considered to be the same for all plans within the portfolio. The annual money-weighted rate of return expressing investment performance, net of investment expenses and adjusted for the changing amounts actually invested, for the Defined Benefit portfolio was 16.82 percent for 2017.

For the year ended December 31, 2016, OPERS managed investments in four investment portfolios: the Defined Benefit portfolio, the 401(h) Health Care Trust portfolio, the 115 Health Care Trust portfolio and the Defined Contribution portfolio. The 401(h) Health Care Trust portfolio was closed as of June 30, 2016 and the net position transferred to the 115 Health Care Trust portfolio on July 1, 2016. The Defined Benefit portfolio contains the investment assets of the Traditional Pension Plan, the defined benefit component of the Combined Plan and the annuitized accounts of the Member-Directed Plan. The Defined Benefit portfolio historically included the assets of the Member-Directed retiree medical accounts funded through the VEBA Trust. However, the VEBA Trust was closed as of June 30, 2016 and the net position transferred to the 115 Health Care Trust portfolio on July 1, 2016. Within the Defined Benefit portfolio, contributions into the plans are all recorded at the same time, and benefit payments all occur on the first of the month. Accordingly, the money-weighted rate of return is considered to be the same for all plans within the portfolio. The annual money-weighted rate of return expressing investment performance, net of investment expenses and adjusted for the changing amounts actually invested, for the Defined Benefit portfolio is 8.3% for 2016.

The allocation of investment assets with the Defined Benefit portfolio is approved by the Board of Trustees as outlined in the annual investment plan. Plan assets are managed on a total return basis with a long-term objective of achieving and maintaining a fully funded status for the benefits provided through the defined benefit pension plans. The table below displays the Board-approved asset allocation policy for 2017 and 2016 and the long-term expected real rates of return:

| Asset Class | 2017 Target Allocation | 2016 Target Allocation | 2017 Weighted Average Long-Term Expected Real Rate of Return (Arithmetic) | 2016 Weighted Average Long-Term Expected Real Rate of Return (Arithmetic) |
|---|---|---|---|---|
| Fixed Income | 23.00 % | 23.00 % | 2.20 % | 2.75 % |
| Domestic Equities | 19.00 | 20.70 | 6.37 | 6.34 |
| Real Estate | 10.00 | 10.00 | 5.26 | 4.75 |
| Private Equity | 10.00 | 10.00 | 8.97 | 8.97 |
| International Equities | 20.00 | 18.30 | 7.88 | 7.95 |
| Other investments | 18.00 | 18.00 | 5.26 | 4.92 |
| Total | 100.00 % | 100.00 % | 5.66 % | 5.66 % |

*Discount Rate* The discount rate used to measure the total pension liability was 7.5 percent for the years ended December 31, 2017 and 2016. 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, and actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefits payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

*Sensitivity of the District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate* The following table presents the District's proportionate share of the net pension liability calculated as of the measurement date December 31, 2017 using the current period discount rate assumption of 7.5 percent, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one-percentage-point lower (6.5 percent) or one-percentage-point higher (8.5 percent) than the current rate:

| | 1% Decrease (6.50%) | Current Discount Rate (7.50%) | 1% Increase (8.50%) |
|---|---|---|---|
| District's proportionate share of the net pension liability | $2,378,795 | $1,339,604 | $473,231 |

The following table presents the District's proportionate share of the net pension liability calculated as of the measurement date December 31, 2016 using the current period discount rate assumption of 7.5 percent, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one-percentage-point lower (6.5 percent) or one-percentage-point higher (8.5 percent) than the current rate:

| | 1% Decrease (6.50%) | Current Discount Rate (7.50%) | 1% Increase (8.50%) |
|---|---|---|---|
| District's proportionate share of the net pension liability | $2,692,446 | $1,762,391 | $987,354 |

## Note 10 – Defined Postemployment Benefits Plan – GASB Statement No. 75

### Net OPEB Liability

The net OPEB liability reported on the statement of net position represents a liability to employees for OPEB. OPEB is a component of exchange transactions—between an employer and its employees—of salaries and benefits for employee services. OPEB 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 OPEB is a present obligation because it was created as a result of employment exchanges that already have occurred.

The net OPEB liability represents the District's proportionate share of the OPEB plan's collective actuarial present value of projected benefit payments attributable to past periods of service, net of the OPEB plan's fiduciary net position. The net OPEB 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 these estimates annually.

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

GASB 75 assumes the liability is solely the obligation of the employer, because they benefit from employee services. OPEB contributions come from these employers and health care plan enrollees which pay a portion of the health care costs in the form of a monthly premium. The Ohio Revised Code permits, but does not require the retirement system to provide healthcare to eligible benefit recipients. Any change to benefits or funding could significantly affect the net OPEB liability. Resulting adjustments to the net OPEB liability would be effective when the changes are legally enforceable. The retirement system may allocate a portion of the employer contributions to provide for these OPEB benefits.

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

### Plan Description – Ohio Public Employees Retirement System (OPERS)

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

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

In order to qualify for postemployment health care coverage, age and service retirees under the traditional pension and combined plans must have twenty or more years of qualifying Ohio service credit. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available. The health care coverage provided by OPERS meets the definition of an Other Post Employment Benefit (OPEB) as described in GASB Statement 75. See OPERS' CAFR referenced below for additional information.

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

Disclosures for the health care plan are presented separately in the OPERS financial report. Interested parties may obtain a copy by visiting https://www.opers.org/financial/reports.shtml, by writing to OPERS, 277 East Town Street, Columbus, Ohio 43215-4642, or by calling (614) 222-5601 or 800-222-7377.

*Funding Policy* – The Ohio Revised Code provides the statutory authority requiring public employers to fund postemployment health care through their contributions to OPERS. When funding is approved by OPERS Board of Trustees, 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 2018, 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 percent. 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 percent 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 percent for both plans. The OPERS Board is also authorized to establish rules for the retiree or their surviving beneficiaries to pay a portion of the health care provided. Payment amounts vary depending on the number of covered dependents and the coverage selected. The employer contribution as a percentage of covered payroll deposited into the RMA for participants in the Member-Directed Plan for 2018 was 4.0 percent.

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

The District's contractually required contribution was $0 for 2018.

**OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB**

The net OPEB liability and total OPEB liability for OPERS were determined by an actuarial valuation as of December 31, 2016, rolled forward to the measurement date of December 31, 2017, by incorporating the expected value of health care cost accruals, the actual health care payment, and interest accruals during the year. The District's proportion of the net OPEB liability was based on the District's share of contributions to the retirement plan relative to the contributions of all participating entities. Following is information related to the proportionate share and OPEB expense:

| | |
|---|---|
| Proportion of the Net OPEB Liability: | |
| Current Measurement Date | 0.007970% |
| Prior Measurement Date | 0.007761% |
| Change in Proportionate Share | 0.0002090% |
| Proportionate Share of the: | |
| Net OPEB Liability | $865,483 |
| OPEB Expense | $80,119 |

At December 31, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

| | |
|---|---|
| **Deferred Outflows of Resources** | |
| Differences between expected and actual experience | $675 |
| Changes of assumptions | 63,017 |
| Changes in proportion and differences between District contributions and proportionate share of contributions | 14,282 |
| Total Deferred Outflows of Resources | $77,974 |
| **Deferred Inflows of Resources** | |
| Net difference between projected and actual earnings on OPEB plan investments | $64,473 |
| Changes in proportion and differences between District contributions and proportionate share of contributions | 1,091 |
| Total Deferred Inflows of Resources | $65,564 |

$0 reported as deferred outflows of resources related to OPEB resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

| Year Ending December 31: | |
|---|---|
| 2019 | $20,638 |
| 2020 | 20,638 |
| 2021 | (12,748) |
| 2022 | (16,118) |
| Total | $12,410 |

**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 and include the types of coverage provided at the time of each valuation and the historical pattern of sharing of costs between OPERS and plan members. The total OPEB liability was determined by an actuarial valuation as of December 31, 2016, rolled forward to the measurement date of December 31, 2017. The actuarial valuation used the following actuarial assumptions applied to all prior periods included in the measurement in accordance with the requirements of GASB 74:

| | |
|---|---|
| Wage Inflation | 3.25 percent |
| Projected Salary Increases, including inflation | 3.25 to 10.75 percent including wage inflation |
| Single Discount Rate: | |
| Current measurement date | 3.85 percent |
| Prior Measurement date | 4.23 percent |
| Investment Rate of Return | 6.50 percent |
| Municipal Bond Rate | 3.31 percent |
| Health Care Cost Trend Rate | 7.5 percent, initial<br>3.25 percent, ultimate in 2028 |
| Actuarial Cost Method | Individual Entry Age |

Pre-retirement mortality rates are based on the RP-2014 Employees mortality table for males and females, adjusted for mortality improvement back to the observation period base year of 2006. The base year for males and females was then established to be 2015 and 2010, respectively. Post-retirement mortality rates are based on the RP-2014 Healthy Annuitant mortality table for males and females, adjusted for mortality improvement back to the observation period base year of 2006. The base year for males and females was then established to be 2015 and 2010, respectively. Post-retirement mortality rates for disabled retirees are based on the RP-2014 Disabled mortality table for males and females, adjusted for mortality improvement back to the observation period base year of 2006. The base year for males and females was then established to be 2015 and 2010, respectively. Mortality rates for a particular calendar year are determined by applying the MP-2015 mortality improvement scale to all of the above described tables.

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

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

During 2017, OPERS managed investments in three investment portfolios: the Defined Benefit portfolio, the Health Care portfolio and the Defined Contribution portfolio. The Health Care portfolio includes the assets for health care expenses for the Traditional Pension Plan, Combined Plan and Member-Directed Plan eligible members. Within the Health Care portfolio, contributions into the plans are assumed to be received continuously throughout the year based on the actual payroll payable at the time contributions are made, and health care-related payments are assumed to occur mid-year. Accordingly, the money-weighted rate of return is considered to be the same for all plans within the portfolio. The annual money-weighted rate of return expressing investment performance, net of investment expenses and adjusted for the changing amounts actually invested, for the Health Care portfolio is 15.2 percent for 2017.

The allocation of investment assets with the Health Care portfolio is approved by the Board of Trustees as outlined in the annual investment plan. Assets are managed on a total return basis with a long-term objective of continuing to offer a sustainable health care program for current and future retirees. OPERS' primary goal is to achieve and maintain a fully funded status for the benefits provided through the defined pension plans. Health care is a discretionary benefit. The table below displays the Board-approved asset allocation policy for 2017 and the long-term expected real rates of return:

| Asset Class | Target Allocation | Weighted Average Long-Term Expected Real Rate of Return (Arithmetic) |
|---|---|---|
| Fixed Income | 34.00 % | 1.88 % |
| Domestic Equities | 21.00 | 6.37 |
| Real Estate Investment Trust | 6.00 | 5.91 |
| International Equities | 22.00 | 7.88 |
| Other investments | 17.00 | 5.39 |
| Total | 100.00 % | 4.98 % |

*Discount Rate* A single discount rate of 3.85 percent was used to measure the OPEB liability on the measurement date of December 31, 2017. A single discount rate of 4.23 percent was used to measure the OPEB liability on the measurement date of December 31, 2016. Projected benefit payments are required to be discounted to their actuarial present value using a single discount rate that reflects (1) a long-term expected rate of return on OPEB plan investments (to the extent that the health care fiduciary net position is projected to be sufficient to pay benefits), and (2) tax-exempt municipal bond rate based on an index of 20-year general obligation bonds with an average AA credit rating as of the measurement date (to the extent that the contributions for use with the long-term expected rate are not met). This single discount rate was based on an expected rate of return on the health care investment portfolio of 6.50 percent and a municipal bond rate of 3.31 percent. The projection of cash flows used to determine this single discount rate assumed that employer contributions will be made at rates equal to the actuarially determined contribution rate. Based on these assumptions, the health care fiduciary net position and future contributions were sufficient to finance health care costs through 2034. As a result, the long-term expected rate of return on health care investments was applied to projected costs through the year 2034, and the municipal bond rate was applied to all health care costs after that date.

*Sensitivity of the District's Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate* The following table presents the District's proportionate share of the net OPEB liability calculated using the single discount rate of 3.85 percent, as well as what the District's proportionate share of the net OPEB liability would be if it were calculated using a discount rate that is one-percentage-point lower (2.85 percent) or one-percentage-point higher (4.85 percent) than the current rate:

| | 1% Decrease (2.85%) | Current Discount Rate (3.85%) | 1% Increase (4.85%) |
|---|---|---|---|
| District's proportionate share of the net OPEB liability | $1,149,832 | $865,483 | $635,448 |

*Sensitivity of the District's Proportionate Share of the Net OPEB Liability to Changes in the Health Care Cost Trend Rate* Changes in the health care cost trend rate may also have a significant impact on the net OPEB liability. The following table presents the net OPEB liability calculated using the assumed trend rates, and the expected net OPEB liability if it were calculated using a health care cost trend rate that is 1.0 percent lower or 1.0 percent higher than the current rate.

Retiree health care valuations use a health care cost-trend assumption that changes over several years built into the assumption. The near-term rates reflect increases in the current cost of health care; the trend starting in 2018 is 7.50 percent. If this trend continues for future years, the projection indicates that years from now virtually all expenditures will be for health care. A more reasonable alternative is that in the not-too-distant future, the health plan cost trend will decrease to a level at, or near, wage inflation. On this basis, the actuaries project premium rate increases will continue to exceed wage inflation for approximately the next decade, but by less each year, until leveling off at an ultimate rate, assumed to be 3.25 percent in the most recent valuation.

| | 1% Decrease | Current Health Care Cost Trend Rate Assumption | 1% Increase |
|---|---|---|---|
| District's proportionate share of the net OPEB liability | $828,083 | $865,483 | $904,117 |

**<u>Note 11 – Postemployment Benefits – GASB Statement No. 45</u>**

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

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

In order to qualify for health care coverage, age-and-service retirees under the Traditional Pension and Combined plans must have 20 or more years of qualifying Ohio service credit. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available. The health care coverage provided by OPERS meets the definition of an Other Post Employment Benefit (OPEB) as described in GASB Statement 45. Please see the Plan Statement in the OPERS 2016 CAFR for details.

The Ohio Revised Code permits, but does not require, OPERS to provide 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, Ohio 43215-4642, or by calling 614-222-5601 or 800-222-7377.

*Funding Policy* – The Ohio Revised Code provides the statutory authority requiring public employers to fund health care through their contributions to OPERS. A portion of each employer's contribution to OPERS may be 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% of earnable salary. These are the maximum employer contribution rates permitted by the Ohio Revised Code. Active member contributions do not fund health care.

Each year, the OPERS Board determines the portion of the employer contribution rate that will be set aside to fund health care plans. The portion of employer contributions allocated to health care for members in the Traditional Pension Plan and Combined Plan was 1.0 percent 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%.

The employer contributions that were used to fund postemployment benefits for the years ended December 2017 and 2016 were $10,933 and $20,099, respectfully. All required contributions have been made for each year.

## Note 12 – Information by Division

The District maintains two divisions which provide water and sewer services. Information by division for the year ended December 31, 2018 and 2017 follows:

2018

| | Division | | |
|---|---|---|---|
| | Water | Sewer | Total |
| Operating revenues | $3,144,027 | $1,048,361 | $4,192,388 |
| Operating expenses, before depreciation | 2,406,218 | 684,183 | 3,090,401 |
| Depreciation | 672,324 | 338,066 | 1,010,390 |
| Operating income | 65,485 | 26,112 | 91,597 |
| Nonoperating revenues | 1,159,887 | 151,091 | 1,310,978 |
| Nonoperating expenses | 122,531 | 80,419 | 202,950 |
| Net income (loss) | $1,102,841 | $96,784 | $1,199,625 |

2017

| | Division | | |
|---|---|---|---|
| | Water | Sewer | Total |
| Operating revenues | $3,027,782 | $1,041,606 | $4,069,388 |
| Operating expenses, before depreciation | 2,168,364 | 691,768 | 2,860,132 |
| Depreciation | 647,786 | 322,328 | 970,114 |
| Operating income | 211,632 | 27,510 | 239,142 |
| Nonoperating revenues | 546,930 | 120,801 | 667,731 |
| Nonoperating expenses | 124,502 | 81,998 | 206,500 |
| Net income (loss) | $634,060 | $66,313 | $700,373 |

## Note 13 – Budget

Budgetary activity for the years ended December 31, 2018 and 2017 follows:

Budgeted vs. Actual Receipts

| | 2018 | 2017 |
|---|---|---|
| Budgeted Receipts | $10,369,900 | $4,324,600 |
| Actual Receipts | 5,968,902 | 4,775,051 |
| Variance | ($4,400,998) | $450,451 |

Budgeted vs. Actual Budgetary Basis Expenditures

| | 2018 | 2017 |
|---|---|---|
| Appropriation Authority | $6,548,792 | $5,862,138 |
| Budgetary Expenditures | 6,073,585 | 5,777,794 |
| Variance | $475,207 | $84,344 |

## Note 14 – Pending Litigation

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

There was no material litigation pending or outstanding as of December 31, 2018 that management believes might have a significant effect on the accompanying financial statements.

## Note 15 – Federal Financial Assistance

The District received $390,499 and $0 in financial assistance in 2018 and 2017, respectively.

## Note 16 – New Accounting Pronouncements/Restatement of Beginning Net Position

For the fiscal year ended December 31, 2018, the District was required to implement Governmental Accounting Standards Board Statements No. 75, "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions," No. 85, "Omnibus 2017," and No. 86, "Certain Debt Extinguishment Issues."

GASB Statement No. 75 replaces the requirements of GASB Statement No. 45, "Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions." Among other things, Statement No. 75 requires governments to report a liability on the face of the financial statements for the OPEB that they provide and requires governments in all types of OPEB plans to present more extensive note disclosures and required supplementary information about their OPEB liabilities. The District implemented GASB 75, which resulted in expanded note disclosures and required supplementary information, restatement of beginning net position, and recognition of additional deferred inflows and outflows of resources and liabilities.

GASB Statement No. 85 addresses issues found during the application of: 1) blending a component unit in circumstances in which the primary government is a business-type activity reporting in a single column for financial statement presentation; 2) reporting amounts previously reported as goodwill and "negative" goodwill; 3) classifying real estate held by insurance entities; 4) measuring certain money market investments and participating interest-earning investment contracts at amortized cost; 5) timing of the measurement of pension and other postemployment benefits (OPEB) liabilities and related expenditures recognized in financial statements prepared using the current financial resources measurement focus; 6) recognizing on-behalf payments for pensions or OPEB in employer financial statements; and 7) simplifying certain aspects of the alternative measurement method for OPEB. These changes were incorporated in the District's fiscal year 2018 financial statements; however, there was no effect on beginning net position/fund balance.

GASB Statement No. 86 provides guidance for transactions in which cash and other monetary assets acquired with only existing resources, that is, resources other than the proceeds of refunding debt, are placed in an irrevocable trust for the sole purpose of extinguishing debt. Under Statement No. 7, "Advance Refundings Resulting in Defeasance of Debt," government entities must consider debt to be considered defeased in substance when the debtor irrevocably places cash or other monetary assets acquired with refunding debt proceeds in a trust to be used solely for satisfying scheduled payments of both principal and interest of the defeased debt. Statement No. 86 generally follows the same requirements as Statement No. 7 when a government places cash and other monetary assets acquired with only existing resources in an irrevocable trust to extinguish the debt. However, in financial statements using the economic resources measurement focus, governments should recognize any difference between the reacquisition price (the amount required to be placed in the trust) and the net carrying amount of the debt defeased in substance using only existing resources as a separately identified gain or loss in the period of the defeasance.

Except as noted above, none of these Statements had an impact on the District's financial statements or note disclosures. The implementation of GASB Statement No. 75 had the following effects on beginning net position.

| | |
|---|---|
| Net Position, As Reported, December 31, 2017 | $18,329,068 |
| Restatements: | |
| GASB 75 Implementation: | |
| Deferred Outflows of Resources | 10,933 |
| Net OPEB Liability | (783,887) |
| Net Position, As Restated, January 1, 2018 | $17,556,114 |

Other than employer contributions subsequent to the measurement date, the District made no restatement for deferred inflows/outflows of resources as the information needed to generate these restatements was not available.

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

| | 2014 | 2015 | 2016 | 2017 | 2018 |
|---|---|---|---|---|---|
| *Ohio Public Employees Retirement System* | | | | | |
| District's proportion of the net pension liability | 0.006501% | 0.006501% | 0.007270% | 0.007761% | 0.008539% |
| District's proportionate share of the net pension liability | $766,419 | $784,130 | $1,259,256 | $1,762,391 | $1,339,604 |
| District's covered-employee payroll | $741,432 | $797,417 | $905,517 | $1,004,942 | $1,093,223 |
| District's proportionate share of the net pension liability as a percentage of its covered-employee payroll | 103.37% | 98.33% | 139.06% | 175.37% | 122.54% |
| Plan fiduciary net position as a percentage of the total pension liability | 86.36% | 86.45% | 81.08% | 77.25% | 84.85% |

The amounts presented for each year were determined as of December 31 of the previous year, which is the District's measurement date.
(1) Information not available prior to 2014.
See accompanying notes to the required supplementary information.

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

| | 2017 | 2018 |
|---|---|---|
| *Ohio Public Employees Retirement System* | | |
| District's proportion of the net OPEB liability | 0.007761% | 0.007970% |
| District's proportionate share of the net OPEB liability | \$783,887 | \$865,483 |
| District's covered-employee payroll | \$1,004,942 | \$1,093,223 |
| District's proportionate share of the net OPEB liability as a percentage of its covered-employee payroll | 78.00% | 79.17% |
| Plan fiduciary net position as a percentage of the total OPEB | 54.05% | 54.14% |

The amounts presented for each year were determined as of December 31 of the previous year, which is the District's measurement date.
(1) Information not available prior to 2017.
See accompanying notes to the required supplementary information.

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

| | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 |
|---|---|---|---|---|---|---|---|---|---|---|
| *Ohio Public Employees Retirement System* | | | | | | | | | | |
| Contractually required contribution - pension | $49,462 | $57,488 | $67,735 | $68,539 | $96,386 | $95,690 | $108,662 | $120,593 | $142,119 | $179,321 |
| Contractually required contribution - OPEB | 35,765 | 32,774 | 27,094 | 27,415 | 7,414 | 15,948 | 18,110 | 20,099 | 10,933 | 0 |
| Contractually required contribution - total | 85,227 | 90,262 | 94,829 | 95,954 | 103,800 | 111,638 | 126,772 | 140,692 | 153,052 | 179,321 |
| Contributions in relation to the contractually required contribution | 85,227 | 90,262 | 94,829 | 95,954 | 103,800 | 111,638 | 126,772 | 140,692 | 153,052 | 179,321 |
| Contribution deficiency (excess) | $0 | $0 | $0 | $0 | $0 | $0 | $0 | $0 | $0 | $0 |
| District's covered-employee payroll | $608,760 | $644,730 | $677,352 | $685,387 | $741,432 | $797,417 | $905,517 | $1,004,942 | $1,093,223 | $1,280,864 |
| Contributions as a percentage of covered-employee payroll - pension | 8.13% | 8.92% | 10.00% | 10.00% | 13.00% | 12.00% | 12.00% | 12.00% | 13.00% | 14.00% |
| Contributions as a percentage of covered-employee payroll - OPEB | 5.88% | 5.08% | 4.00% | 4.00% | 1.00% | 2.00% | 2.00% | 2.00% | 1.00% | 0.00% |
| Contributions as a percentage of covered-employee payroll - total | 14.00% | 14.00% | 14.00% | 14.00% | 14.00% | 14.00% | 14.00% | 14.00% | 14.00% | 14.00% |

See accompanying notes to the required supplementary information.

## Ohio Public Employees Retirement System

### Pension

Changes in benefit terms

COLAs provided up to December 31, 2018 will be based upon a simple, 3% COLA. COLAs provided after December 31, 2018 continue to be simple, but will be based upon the annual percentage change in the Consumer Price Index (CPI), and not greater than 3%.

Changes in assumptions

Changes in assumptions for 2018 are as follows.

| | |
|---|---|
| Employer Contribution Rate | |
| Allocated to Pensions | |
| Current measurement date | 14.00 percent |
| Prior measurement date | 13.00 percent |

### OPEB

Changes in benefit terms

There were no changes in benefit terms for 2018.

Changes in assumptions

Changes in assumptions for 2018 are as follows.

| | |
|---|---|
| Single Discount Rate: | |
| Current measurement date | 3.85 percent |
| Prior measurement date | 4.23 percent |
| | |
| Employer Contribution Rate | |
| Allocated to Health Care | |
| Current measurement date | 0.00 percent |
| Prior measurement date | 1.00 percent |

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OHIO AUDITOR OF STATE
KEITH FABER

88 East Broad Street, 10th Floor
Columbus, Ohio 43215-3506
(614) 466-3402 or (800) 443-9275
CentralRegion@ohioauditor.gov

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

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

To the Board of Trustees:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of Earnhart Hill Regional Water and Sewer District, Pickaway County, (the District) as of and for the years ended December 31, 2018 and 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated May 20, 2019, wherein we noted the District adopted Governmental Accounting Standard No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*.

***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.

Keith Faber

Keith Faber
Auditor of State

Columbus, Ohio

May 20, 2019

OHIO AUDITOR OF STATE
KEITH FABER

**EARNHART HILL REGIONAL WATER AND SEWER DISTRICT**

**PICKAWAY COUNTY**

**CLERK'S CERTIFICATION**

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

Susan Babbitt

**CLERK OF THE BUREAU**

**CERTIFIED**
**MAY 30, 2019**

88 East Broad Street, Columbus, Ohio 43215
Phone: 614-466-4514 or 800-282-0370
www.ohioauditor.gov