

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

**BASIC FINANCIAL STATEMENTS
(AUDITED)**

FOR THE YEAR ENDED DECEMBER 31, 2015

DENNIS WILLIAMS, GENERAL MANAGER



Dave Yost • Auditor of State

Board of Trustees
Earhart Hill Regional Water and Sewer District
2030 Stoneridge Drive
Circleville, Ohio 43113

We have reviewed the *Independent Auditor's Report* of the Earhart Hill Regional Water and Sewer District, Pickaway County, prepared by Julian & Grube, Inc., for the audit period January 1, 2015 through December 31, 2015. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Earhart Hill Regional Water and Sewer District is responsible for compliance with these laws and regulations.

A handwritten signature in black ink that reads "Dave Yost".

Dave Yost
Auditor of State

July 26, 2016

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

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Julian & Grube, Inc.

Serving Ohio Local Governments

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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 the Earnhart Hill Regional Water and Sewer District, Pickaway County, Ohio, as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the Earnhart Hill Regional Water and Sewer 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 Earnhart Hill Regional Water and Sewer 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 Earnhart Hill Regional Water and Sewer District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of overall financial statement presentation.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Earnhart Hill Regional Water and Sewer District, Pickaway County, Ohio as of December 31, 2015, and the changes in its financial position and its cash flows for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

Emphasis of Matters

As discussed in Note 16 to the financial statements, during the year ended December 31, 2015, the Earnhart Hill Regional Water and Sewer District adopted Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27* and also GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment to GASB Statement No. 68*. In addition, also disclosed in Note 16, the Earnhart Hill Regional Water and Sewer District restated its beginning fund balance to properly state accumulated depreciation. We did not modify our opinion regarding these matters.

Other Matters

Required Supplementary Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 19, 2016 on our consideration of the Earnhart Hill Regional Water and Sewer 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 Earnhart Hill Regional Water and Sewer District's internal control over financial reporting and compliance.



Julian & Grube, Inc.
May 19, 2016

Earnhart Hill Regional Water and Sewer District
Management's Discussion and Analysis
For the Years Ended December 31, 2015 and 2014
(Unaudited)

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

Financial Highlights

- The total assets and deferred outflows of resources of the District exceeded liabilities and deferred inflows of resources on December 31, 2015 and 2014 by \$17,231,510 and \$17,207,910, respectively. The District's net position increased by \$694,330 or 4% in 2015 and \$513,418 or 3% in 2014.
- The District's operating revenues increased by \$17,061 or 1% in 2015 and decreased by \$27,957 or 1% in 2014. Operating expenses increased \$40,196 or 1% in 2015 and \$189,572 or 7% in 2014.
- The District issued no additional long term debt in 2015 or 2014.

Overview of the Basic Financial Statements

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

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

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

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

Net Position

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

Earnhart Hill Regional Water and Sewer District
Management's Discussion and Analysis
For the Years Ended December 31, 2015 and 2014
(Unaudited)

Table 1

	2015	2014*	Change	%	2013*	Change	%
Current & Other Assets	\$4,093,919	\$4,304,377	(\$210,458)	-4.9%	\$3,817,594	\$486,783	12.8%
Capital Assets, Net	23,366,185	23,738,592	(372,407)	-1.6%	24,600,717	(862,125)	-3.5%
Total Assets	27,460,104	28,042,969	(582,865)	-2.1%	28,418,311	(375,342)	-1.3%
Deferred Outflows	150,501	0	150,501	0.0%	0	0	0.0%
Long Term Liabilities	9,098,018	9,578,219	(480,201)	-5.0%	10,348,786	(770,567)	-7.4%
Current & Other Liabilities	415,367	405,125	10,242	2.5%	523,318	(118,193)	-22.6%
Total Liabilities	9,513,385	9,983,344	(469,959)	-4.7%	10,872,104	(888,760)	-8.2%
Deferred Inflows	865,710	851,715	13,995	1.6%	851,715	0	0.0%
Net Position							
Net Investment In Capital							
Assets	15,667,888	14,743,178	924,710	6.3%	14,815,832	(72,654)	-0.5%
Restricted	305,298	411,993	(106,695)	-25.9%	411,993	0	0.0%
Unrestricted	1,258,324	2,052,739	(794,415)	-38.7%	1,466,667	586,072	40.0%
Total Net Position	\$17,231,510	\$17,207,910	\$23,600	0.1%	\$16,694,492	\$513,418	3.1%

*Restated. See note 16 of the notes to the basic financial statements.

The District's net position increased \$23,600 or 0.1% in 2015 and \$513,418 or 3% in 2014. These increases were a result of excess revenues over expenses. Restricted net position decreased in 2015 due to the pay-off of debt that required a restricted cash balance. Restricted net position did not change in 2014. 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 \$924,710 or 6% in 2015 due primarily to additions of capital assets and repayments of debt principal that was only partially offset by depreciation expense. Net investment in capital assets decreased by \$72,654 or 0.5% in 2014 due to deletions of capital assets and depreciation expense, which was partially offset by additions of capital assets and the reduction of the related debt due to principal payments made during the year. Unrestricted net position decreased \$794,415 in 2015 due mainly to the recognition of net pension liability in 2015 as a result of the implementation of GASB Statement No. 68, which is further discussed below. 2013 and 2014 were not restated in the above table to reflect this implementation.

During 2015, the District adopted GASB Statement No. 68, "Accounting and Financial Reporting for Pensions-an Amendment of GASB Statement No. 27," and GASB Statement No. 71, "Pension Transition for Contributions Made Subsequent to the Measurement Date-an Amendment of GASB Statement No. 68," which significantly revise accounting for pension costs and liabilities. 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 the net pension liability to the reported net position and subtracting deferred outflows related to pension.

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

Earnhart Hill Regional Water and Sewer District
Management's Discussion and Analysis
For the Years Ended December 31, 2015 and 2014
(Unaudited)

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

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

GASB notes that pension obligations, whether funded or unfunded, are part of the "employment exchange" – that is, the employee is trading his or her labor in exchange for wages, benefits, and the promise of a future pension. GASB noted that the unfunded portion of this pension promise is a present obligation of the government, part of a bargained-for benefit to the employee, and should accordingly be reported by the government as a liability since they received the benefit of the exchange. However, the District is not responsible for certain key factors affecting the balance of this liability. In Ohio, the employee shares the obligation of funding pension benefits with the employer. Both employer and employee contribution rates are capped by State statute. A change in these caps requires action of both Houses of the General Assembly and approval of the Governor. Benefit provisions are also determined by State statute. The employee enters the employment exchange with the knowledge that the employer's promise is limited not by contract but by law. The employer enters the exchange also knowing that there is a specific, legal limit to its contribution to the pension system. In Ohio, there is no legal means to enforce the unfunded liability of the pension system as against the public employer. State law operates to mitigate/lessen the moral obligation of the public employer to the employee, because all parties enter the employment exchange with notice as to the law. The pension system is responsible for the administration of the plan.

Most long-term liabilities have set repayment schedules or, in the case of compensated absences (i.e. sick and vacation leave), are satisfied through paid time-off or termination payments. There is no repayment schedule for the net pension liability. As explained above, changes in pension benefits, contribution rates, and return on investments affect the balance of the net pension liability, but are outside the control of the local government. In the event that contributions, investment returns, and other changes are insufficient to keep up with required pension payments, State statute does not assign/identify the responsible party for the unfunded portion. Due to the unique nature of how the net pension liability is satisfied, this liability is included within the long-term liability section of the statement of net position.

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

As a result of implementing GASB 68, the District is reporting a net pension liability and deferred inflows/outflows of resources related to pension on the accrual basis of accounting. This implementation also had the effect of restating net position at June 30, 2014 from \$17,278,838 to \$16,537,181, which also includes a \$70,928 restatement due to the adjustment of beginning capital asset accumulated depreciation.

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.

Earnhart Hill Regional Water and Sewer District
Management's Discussion and Analysis
For the Years Ended December 31, 2015 and 2014
(Unaudited)

Table 2

	2015	2014*	Difference	%	2013*	Difference	%
Operating Revenues	\$3,377,544	\$3,360,483	\$17,061	1%	\$3,388,440	(\$27,957)	-1%
Total Operating Revenues	3,377,544	3,360,483	17,061	1%	3,388,440	(27,957)	-1%
Treatment Expenses	215,995	276,434	(60,439)	-22%	243,387	33,047	14%
Power	210,823	213,144	(2,321)	-1%	206,113	7,031	3%
Distribution	663,343	658,009	5,334	1%	610,001	48,008	8%
Customer Accounting	293,036	248,594	44,442	18%	222,890	25,704	12%
Transportation	42,562	54,786	(12,224)	-22%	54,507	279	1%
Fringe Benefits	321,072	305,168	15,904	5%	287,710	17,458	6%
Depreciation and Amortization	874,720	887,874	(13,154)	-1%	860,636	27,238	3%
Administrative & General	366,754	304,100	62,654	21%	273,293	30,807	11%
Total Operating Expenses	2,988,305	2,948,109	40,196	1%	2,758,537	189,572	7%
Operating Income	389,239	412,374	(23,135)	-6%	629,903	(217,529)	-35%
Non-Operating Expenses	218,596	785,039	(566,443)	-72%	327,289	457,750	140%
Non-Operating Revenues	446,620	190,525	256,095	134%	111,263	79,262	71%
Capital Contributions	77,067	695,558	(618,491)	-89%	280,757	414,801	148%
Changes in Net Position	694,330	513,418	180,912	35%	694,634	(181,216)	-26%
Net Position at Beginning of Year- Restated	16,537,180	16,694,492	N/A	N/A	15,999,858	N/A	N/A
Net Position at End of Year	\$17,231,510	\$17,207,910	\$23,600	0%	\$16,694,492	\$513,418	3%

*Restated. See note 16 of the notes to the basic financial statements.

Operating revenues increased \$17,061 or 1% in 2015 and decreased \$27,957 or 1% in 2014. Neither change was significant. Capital contributions will fluctuate from year to year depending on construction activity, and improvement projects that may qualify for special assessment and/or grant monies. The District recorded \$77,067 and \$695,558 in capital contributions in 2015 and 2014, respectively. In 2015, the District received these funds due to the 5-year expiration of 3 line extension projects. In 2014, the District received \$668,691 from the State of Ohio to relocate an 18 inch water line on Ashville Pike and \$26,867 from a line extension for Ohio Christian University. Operating expenses, excluding depreciation, increased by \$53,350 or 3% in 2015 and \$162,334 or 9% in 2014. Increases of \$44,442 in customer accounting and \$62,654 in administrative and general expenses accounted for most of the increase in 2015. These increases were partially offset by a decrease of \$60,439 in treatment expenses. Increases of \$33,047 in treatment expense, \$48,008 in distribution, and \$30,807 in administrative and general accounted for most of the increase in 2014.

The information necessary to restate the 2014 beginning balances and the 2014 pension expense amounts for the effects of the initial implementation of GASB 68 is not available. Therefore, 2014 expenses still include pension expense of \$95,690 computed under GASB 27. GASB 27 required recognizing pension expense equal to the contractually required contributions to the plan. Under GASB 68, pension expense represents additional amounts earned, adjusted by deferred inflows/outflows. The contractually required contribution is no longer a component of pension expense. Under GASB 68, the 2015 statements report pension expenses of \$85,557. Consequently, in order to compare 2015 total program expenses to 2014, the following adjustments are needed:

Earnhart Hill Regional Water and Sewer District
Management's Discussion and Analysis
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(Unaudited)

Total 2015 expenses under GASB 68	\$3,206,901
Pension expense under GASB 68	(85,557)
2015 contractually required contributions	<u>108,662</u>
Adjusted 2015 expenses	3,230,006
Total 2014 expenses under GASB 27	<u>3,733,148</u>
Decrease in expenses not related to pension	<u><u>(\$503,142)</u></u>

Capital Assets

Table 3 summarizes the changes in capital assets.

Table 3

	2015	2014*	Change	%	2013*	Change	%
Land	\$841,797	\$841,797	\$0	0%	\$746,797	\$95,000	13%
Buildings	1,207,183	1,198,991	8,192	1%	1,154,295	44,696	4%
Treatment Facilities	6,388,924	6,262,716	126,208	2%	6,191,384	71,332	1%
Transmission, Storage & Collection	23,959,284	23,608,269	351,015	1%	23,362,493	245,776	1%
Vehicles	337,155	337,155	0	0%	318,807	18,348	6%
Furniture & Equipment	490,172	469,014	21,158	5%	467,297	1,717	0%
Construction in Progress	233,910	238,170	(4,260)	-2%	780,558	(542,388)	-69%
Total before Depreciation	<u>33,458,425</u>	<u>32,956,112</u>	<u>502,313</u>	<u>2%</u>	<u>33,021,631</u>	<u>(65,519)</u>	<u>0%</u>
Accumulated Depreciation	<u>(10,092,240)</u>	<u>(9,217,520)</u>	<u>(874,720)</u>	<u>9%</u>	<u>(8,420,914)</u>	<u>(796,606)</u>	<u>9%</u>
Total Capital Assets, Net	<u><u>\$23,366,185</u></u>	<u><u>\$23,738,592</u></u>	<u><u>(\$372,407)</u></u>	<u><u>-2%</u></u>	<u><u>\$24,600,717</u></u>	<u><u>(\$862,125)</u></u>	<u><u>-4%</u></u>

*Restated. See note 16 of the notes to the basic financial statements.

Capital assets (before depreciation) increased \$502,313 or 2% in 2015 and decreased \$65,519 or 0% in 2014. Total capital assets, net decreased \$372,407 or 2% in 2015 and \$862,125 or 4% in 2014. The decrease in 2015 is mainly due to depreciation exceeding additions for the year. The decrease in 2014 is mainly due to depreciation and deletions exceeding additions for the year. For additional information regarding capital assets, please see note 7 of the notes to the basic financial statements.

Debt

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

Table 4 summarizes the changes in long-term debt.

Earnhart Hill Regional Water and Sewer District
Management's Discussion and Analysis
For the Years Ended December 31, 2015 and 2014
(Unaudited)

Table 4

	2015	2014	Change	%	2013	Change	%
Savings Bank Loans	\$0	\$0	\$0	0%	\$556,150	(\$556,150)	-100%
Rural Development Loans	5,380,832	6,569,450	(1,188,618)	-18%	6,694,418	(124,968)	-2%
OWDA Loans	2,017,465	2,100,964	(83,499)	-4%	2,184,317	(83,353)	-4%
OPWC Loan	300,000	325,000	(25,000)	-8%	350,000	(25,000)	-7%
Rotary Commission Loan	821,966	821,966	0	0%	821,966	0	0%
Total Long Term Debt	8,520,263	9,817,380	(1,297,117)	-13%	10,606,851	(789,471)	-7%
Less							
Current Maturities	206,375	239,161	(32,786)	-14%	258,065	(18,904)	-7%
Net Total Long-Term Debt	\$8,313,888	\$9,578,219	(\$1,264,331)	-13%	\$10,348,786	(\$770,567)	-7%

Net long-term debt decreased by \$1,264,331 or 13% in 2015 due to scheduled principal payments and the pay-off of one of the Rural Development loans in full. Net long-term debt decreased by \$770,567 or 7% in 2014 due to scheduled principal payments. For additional information regarding debt, please see note 3 of the notes to the basic financial statements.

Cash

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

Table 5

	2015	2014	Change	%	2013	Change	%
Unrestricted Cash and Cash Equivalents	\$2,099,473	\$2,218,317	(\$118,844)	-5%	\$1,683,126	\$535,191	32%
Cash Restricted for Debt Service	305,298	411,993	(106,695)	-26%	411,993	0	0%
Total Cash	\$2,404,771	\$2,630,310	(\$225,539)	-9%	\$2,095,119	\$535,191	26%

Unrestricted cash and cash equivalents decreased \$118,844 or 5% in 2015, due mainly to the pay-off of a large Rural Development loan, and increased \$535,191 or 32% in 2014, due mainly to cash contributions received from the State of Ohio. Cash restricted for debt service decreased \$106,695 or 26% in 2015 due to the pay-off of a Rural Development loan that had a related debt covenant. Cash restricted for debt service did not change in 2014.

Current Financial Related Activities

In 2015, the District implemented a Water Facility Charge increase of \$1, a Sewer Facility Charge increase of \$1(Circleville/Pickaway Township area), and a Facility Charge Sewer increase of 2.0% (Stoutsville/Tarlton area). In 2015, the District also implemented a Water Usage Charge increase of 4.4%, a Sewer Usage Charge increase of 5.8% (Circleville/Pickaway Township area), and a Sewer Facility Charge increase of 2.1% (Stoutsville/Tarlton area). Future rate adjustments are projected in the District's Ten Year Plan and are evaluated annually.

Contact Information

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

Earnhart Hill Regional Water and Sewer District
Statements of Net Position
As of December 31, 2015 and 2014

	2015	2014
Current assets		
Cash and cash equivalents	\$2,099,473	\$2,218,317
Accounts receivable	443,660	408,392
Assessments receivable	1,103,914	1,136,273
Inventories	127,775	116,118
Prepaid expenses	13,799	13,284
	3,788,621	3,892,384
<i>Total current assets</i>		
Noncurrent assets		
Restricted assets:		
Cash and cash equivalents-debt service reserve	305,298	411,993
	305,298	411,993
<i>Total restricted assets</i>		
Capital assets		
Land and land easements	841,797	841,797
Buildings	1,207,183	1,198,991
Treatment facilities	6,388,924	6,262,716
Transmission, storage and collection	23,959,284	23,608,269
Vehicles	337,155	337,155
Furniture and equipment	490,172	469,014
Construction in progress	233,910	238,170
	33,458,425	32,956,112
<i>Total capital assets</i>		
Less: accumulated depreciation	(10,092,240)	(9,217,520)
<i>Capital assets, net</i>	23,366,185	23,738,592
<i>Total assets</i>	27,460,104	28,042,969
Deferred outflows of resources		
Pension	150,501	0
	150,501	0
<i>Total deferred outflows of resources</i>	\$150,501	\$0

(continued)

Earnhart Hill Regional Water and Sewer District
Statements of Net Position (Continued)
As of December 31, 2015 and 2014

	2015	2014
Current liabilities		
Accounts payable	\$41,250	\$3,268
Prepaid taps and main line extensions	104,608	95,451
Customer deposits	24,575	23,540
Current portion of USDA revenue bonds payable	97,728	130,662
Current portion of OWDA loans payable	83,647	83,499
Current portion of OPWC loans payable	25,000	25,000
Accrued payroll	19,919	18,730
Accrued interest payable	18,640	24,975
<i>Total current liabilities</i>	415,367	405,125
Long-term liabilities		
Revenue bonds payable USDA (net of current portion)	5,283,104	6,438,788
Loans payable OWDA (net of current portion)	1,933,818	2,017,465
Loans payable OPWC (net of current portion)	275,000	300,000
Notes payable Rotary Loan	821,966	821,966
Net pension liability	784,130	0
<i>Total long-term liabilities</i>	9,098,018	9,578,219
<i>Total liabilities</i>	9,513,385	9,983,344
Deferred inflows of resources		
Assessments-construction-agricultural	851,715	851,715
Pension	13,995	0
<i>Total deferred inflows of resources</i>	865,710	851,715
Net position		
Net investment in capital assets	15,667,888	14,743,178
Restricted for debt service	305,298	411,993
Unrestricted	1,258,324	2,052,739
<i>Total net position</i>	<u>\$17,231,510</u>	<u>\$17,207,910</u>

See accompanying notes to the basic financial statements.

Earnhart Hill Regional Water and Sewer District
Statements of Revenues, Expenses and Changes in Net Position
For the Years Ended December 31, 2015 and 2014

	2015	2014
Operating revenues		
Service charges	\$3,334,569	\$3,303,267
Other	42,975	57,216
<i>Total operating revenues</i>	3,377,544	3,360,483
Operating expenses		
Treatment expense	215,995	276,434
Power	210,823	213,144
Distribution	663,343	658,009
Customer accounting	293,036	248,594
Transportation	42,562	54,786
Fringe benefits	321,072	305,168
Depreciation and amortization	874,720	887,874
Administrative and general	366,754	304,100
<i>Total operating expenses</i>	2,988,305	2,948,109
<i>Operating income</i>	389,239	412,374
Nonoperating revenues (expenses)		
Capacity charges	335,330	107,800
Tap fee revenue	61,170	24,250
Interest income	27,839	31,242
Gain on sale of assets	0	5,251
Interest expense	(218,596)	(300,224)
Loss on sale of asset	0	(484,815)
Rental income	22,281	21,982
<i>Net nonoperating revenues (expenses)</i>	228,024	(594,514)
<i>Changes in net position before capital contributions</i>	617,263	(182,140)
Capital contributions-cash	77,067	695,558
<i>Total capital contributions</i>	77,067	695,558
<i>Changes in net position</i>	694,330	513,418
<i>Net position, beginning of year-restated</i>	16,537,180	16,694,492
<i>Net position, end of year</i>	<u>\$17,231,510</u>	<u>\$17,207,910</u>

See accompanying notes to the basic financial statements.

Earnhart Hill Regional Water and Sewer District
Statements of Cash Flows
For the Years Ended December 31, 2015 and 2014

	2015	2014
Cash flows from operating activities		
Cash received from customers	\$3,299,301	\$3,319,152
Cash paid for employee salaries and benefits	(1,273,073)	(1,111,309)
Cash payments to suppliers for goods and services	(836,618)	(992,940)
Cash received from other receipts	42,975	57,216
<i>Net cash provided by operating activities</i>	1,232,585	1,272,119
Cash flows from noncapital and related financial activities		
Refundable line extensions	9,157	(30,367)
Deposits received	1,035	1,055
<i>Net cash provided by (used for) noncapital and related financing activities</i>	10,192	(29,312)
Cash flows from capital and related financing activities		
Tap fees	61,170	24,250
Capacity charges	335,330	107,800
Rental income	22,281	21,982
Revenue bond principal payments	(1,188,618)	(124,968)
Revenue bond interest payments	(220,808)	(288,015)
Loan principal payments	(108,499)	(664,503)
Loan interest payments	(4,124)	(12,839)
Special assessments received	32,359	33,059
Special assessment interest	19,000	21,150
Cash received for sale of assets	0	5,251
Proceeds from capital cash contributions	77,067	695,558
Capital outlay	(502,313)	(536,433)
<i>Net cash used for capital and related financing activities</i>	(1,477,155)	(717,708)
Cash flows from investing activities		
Interest on cash and cash equivalents	8,839	10,092
<i>Net increase (decrease) in cash and cash equivalents</i>	(225,539)	535,191
<i>Cash and cash equivalents, beginning of year</i>	2,630,310	2,095,119
<i>Cash and cash equivalents, end of year</i>	\$2,404,771	\$2,630,310

(continued)

Earnhart Hill Regional Water and Sewer District
Statements of Cash Flows (Continued)
For the Years Ended December 31, 2015 and 2014

	2015	2014
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$389,239	\$412,374
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	874,720	887,874
Changes in assets and liabilities:		
Decrease (increase) in accounts receivable	(35,268)	15,885
Decrease (increase) in inventories	(11,657)	(2,739)
Decrease (increase) in prepaid expenses	(515)	2,203
Increase (decrease) in accounts payable (trade only)	37,982	(6,236)
Increase (decrease) in insurance and taxes payable	0	(7,264)
Increase (decrease) in accrued payroll	1,189	3,182
Increase (decrease) in intergovernmental payable	0	(33,160)
(Increase) decrease in deferred outflows of resources-pension	(54,811)	0
Increase (decrease) in deferred inflows of resources-pension	13,995	0
Increase (decrease) in net pension liability	17,711	0
<i>Total adjustments</i>	843,346	859,745
<i>Net cash provided by operating activities</i>	<u>\$1,232,585</u>	<u>\$1,272,119</u>

See accompanying notes to the basic financial statements.

Earnhart Hill Regional Water and Sewer District
Notes to the Basic Financial Statements
For the Years Ended December 31, 2015 and 2014

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.

Earnhart Hill Regional Water and Sewer District
Notes to the Basic Financial Statements
For the Years Ended December 31, 2015 and 2014

Note 2 – Summary of Significant Accounting Policies (Continued)

Enterprise Fund – This fund is established to account for operations that are financed and operated in a manner similar to private business enterprises where the intent is that costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges. 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, 2015 and 2014.

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. Appropriations lapse at year-end.

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

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

Revenue Recognition

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

Accounts Receivable

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

Restricted Assets

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

Capital Assets

Capital assets are presented at cost or fair market value and are depreciated over the estimated useful lives of the assets from 5 to 50 years, depending upon the type of asset.

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.

Earnhart Hill Regional Water and Sewer District
Notes to the Basic Financial Statements
For the Years Ended December 31, 2015 and 2014

Note 2 – Summary of Significant Accounting Policies (Continued)

Cash and Cash Equivalents

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

Interest Expense

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

Interest Income

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

Inventory of Supplies

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

Prepaid Expenses

Payments made to vendors for services that will benefit periods beyond December 31, 2015 and 2014 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, 2015 and 2014 and is not recorded in the accompanying basic financial statements. Sick leave benefits are not accrued as a liability as employees receive no payment for accrued sick leave upon termination or retirement.

Intergovernmental Payable

The District bills and collects sewer fees and penalties for the City of Circleville Sewer and Pickaway County Sewer. Intergovernmental payable represents those amounts collected on behalf of those districts but not yet paid as of December 31, 2015 and 2014. The District did not report any intergovernmental payables as of December 31, 2015 or 2014.

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, 2015 and 2014 was restricted by enabling legislation.

Earnhart Hill Regional Water and Sewer District
Notes to the Basic Financial Statements
For the Years Ended December 31, 2015 and 2014

Note 2 – Summary of Significant Accounting Policies (Continued)

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 2015 and 2014, the following capital contributions were received:

	2015	2014
State of Ohio	\$0	\$668,691
Ohio Christian University	0	26,867
Project Refundable Line Extension	1,740	0
Morrie Leist Road Line Extension	11,959	0
Pickaway Elementary Line Extension	63,368	0
Totals	\$77,067	\$695,558

Deferred Inflows and Outflows of Resources

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

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The District has deferred inflows of resources related to special assessments and pensions. The \$851,715 balance of the deferred inflow of resources for assessments at December 31, 2015 and 2014 will be recognized as revenue and increase unrestricted net position only when those properties assessed no longer qualify for agricultural status, as defined in Ohio Revised Code Chapter 929, and as certified by the County Auditor. The time frame for collection is therefore undeterminable. Deferred inflows related to pensions will be further discussed in note 9.

Pensions

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

Earnhart Hill Regional Water and Sewer District
Notes to the Basic Financial Statements
For the Years Ended December 31, 2015 and 2014

Note 2 – Summary of Significant Accounting Policies (Continued)

Comparative Information

Comparative data for the prior year has been presented in selected sections of the basic financial statements in order to provide an understanding of the changes in the District’s financial position and operations. Such information does not include 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, 2014, from which the comparative data was derived.

Note 3- Current and Long-Term Debt

Current and long term debts at December 31, 2015 are as follows:

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

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

Earnhart Hill Regional Water and Sewer District
Notes to the Basic Financial Statements
For the Years Ended December 31, 2015 and 2014

Note 3- Current and Long-Term Debt (Continued)

Loan #	Obligation	Interest Rate	Outstanding 12/31/2013	Additions	Deletions	Outstanding 12/31/2014	Due in One Year
91-04	Rural Development	6.625%	\$1,128,181	\$0	\$33,958	\$1,094,223	\$36,272
91-06	Rural Development	4.250%	3,142,237	0	55,010	3,087,227	57,390
9210S	Rural Development	3.375%	2,424,000	0	36,000	2,388,000	37,000
44972	The Savings Bank	5.290%	556,150	0	556,150	0	0
4996	OWDA	0.000%	1,753,700	0	68,773	1,684,927	68,773
4839	OWDA	1.000%	430,617	0	14,580	416,037	14,726
CQ30H	OPWC	0.000%	350,000	0	25,000	325,000	25,000
	Rotary Loan	0.000%	821,966	0	0	821,966	0
			<u>\$10,606,851</u>	<u>\$0</u>	<u>\$789,471</u>	<u>\$9,817,380</u>	<u>\$239,161</u>

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

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

Year	OWDA			OPWC		
	Principal	Interest	Total	Principal	Interest	Total
2016	\$83,646	\$3,976	\$87,622	\$25,000	\$0	\$25,000
2017	83,795	3,827	87,622	25,000	0	25,000
2018	83,946	3,676	87,622	25,000	0	25,000
2019	84,098	3,524	87,622	25,000	0	25,000
2020	84,252	3,371	87,623	25,000	0	25,000
2021-2025	423,617	14,494	438,111	125,000	0	125,000
2026-2030	427,696	10,415	438,111	50,000	0	50,000
2031-2035	431,983	6,128	438,111	0	0	0
2036-2039	314,432	1,669	316,101	0	0	0
Totals	<u>\$2,017,465</u>	<u>\$51,080</u>	<u>\$2,068,545</u>	<u>\$300,000</u>	<u>\$0</u>	<u>\$300,000</u>

Earnhart Hill Regional Water and Sewer District
Notes to the Basic Financial Statements
For the Years Ended December 31, 2015 and 2014

Note 3- Current and Long-Term Debt (Continued)

Year	Water System Revenue Bond		
	Principal	Interest	Total
2016	\$97,728	\$206,957	\$304,685
2017	101,601	203,084	304,685
2018	105,629	199,056	304,685
2019	109,819	194,866	304,685
2020	114,178	190,508	304,686
2021-2025	642,658	880,770	1,523,428
2026-2030	781,188	742,239	1,523,427
2031-2035	950,048	573,380	1,523,428
2036-2040	1,155,968	367,459	1,523,427
2041-2045	885,288	144,002	1,029,290
2046-2049	436,727	37,739	474,466
Totals	\$5,380,832	\$3,740,060	\$9,120,892

In connection with the Rural Development Bonds, OPWC, and OWDA loans listed above, the District has pledged future customer revenues, net of specified operating expenses, to repay this debt. Pledged revenues of a given year may also include specified portions of cash balances carried over from the prior year. The bonds payable, through their final maturities as listed above, solely from net revenues. Total interest and principal remaining to be paid on these bonds and loans is \$11,489,437. For the current year, net revenue available, principal and interest paid and the coverage ratio are as follows: \$1,263,959; \$1,522,049; and 1.20.

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 entered into on June 6, 1995. 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, 2015 and 2014.

Note 4 – Deposits With Financial Institutions – Legal Requirements

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

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

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

Earnhart Hill Regional Water and Sewer District
Notes to the Basic Financial Statements
For the Years Ended December 31, 2015 and 2014

Note 4 – Deposits With Financial Institutions – Legal Requirements (Continued)

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

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

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

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

Deposits – Custodial credit risk for deposits is the risk that in the event of bank failure, the District will not be able to recover deposits or collateral securities that are in the possession of an outside party. As of December 31, 2015 and 2014, \$938,172 and \$250,000 of the District's bank balances of \$2,538,461 and \$2,720,248 were covered by federal depository insurance. The remaining balances were covered by specific securities held by the pledging financial institution's trust department in the District's name and therefore, not subject to custodial credit risk. Although all State statutory requirements for the deposit of money have been followed, non-compliance with federal requirements could potentially subject the District to a successful claim by the FDIC.

Earnhart Hill Regional Water and Sewer District
Notes to the Basic Financial Statements
For the Years Ended December 31, 2015 and 2014

Note 4 – Deposits With Financial Institutions – Legal Requirements (Continued)

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

Note 5 – Accounts Receivable

The following are accounts receivable balances presented by aging classifications as of December 31, 2015 and 2014:

	2015	2014
Current receivables (0-30 days)	\$304,462	\$279,541
Delinquent receivables (31-60 days)	33,307	33,683
Delinquent receivables (over 60 days)	45,912	36,441
Total accounts receivable	\$383,681	\$349,665

As of December 31, 2015 and 2014, the District also had miscellaneous receivables totaling \$59,979 and \$58,727, respectively.

Note 6 – Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors and omissions; injuries to employees; and natural disasters. During 2015 and 2014, 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, 2015 are as follows:

General Liability	\$5,000,000 per occurrence \$7,000,000 aggregate
Public Officials Liability	\$5,000,000 per occurrence \$7,000,000 aggregate
Automobile Liability	\$5,000,000
Property, Boiler & Machinery	\$12,095,673
Inland Marine	\$294,725
Electronic Media	\$156,982
Faithful Performance & Employee Bond	\$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 2015 and 2014. Workers' compensation benefits are provided through the State Bureau of Workers' Compensation.

Earnhart Hill Regional Water and Sewer District
Notes to the Basic Financial Statements
For the Years Ended December 31, 2015 and 2014

Note 7 – Capital Assets

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

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

Earnhart Hill Regional Water and Sewer District
Notes to the Basic Financial Statements
For the Years Ended December 31, 2015 and 2014

Note 7 – Capital Assets (Continued)

	Restated			
	Ending			Ending
	Balance			Balance
	12/31/13	Additions	Deletions	12/31/14
<i>Capital Assets, Not Being Depreciated</i>				
Land and Land Easements	\$746,797	\$95,000	\$0	\$841,797
Construction in Progress	780,558	294,915	(837,303)	238,170
<i>Total Capital Assets, Not Being Depreciated</i>	1,527,355	389,915	(837,303)	1,079,967
<i>Capital Assets Being Depreciated</i>				
Buildings	1,154,295	44,696	0	1,198,991
Treatment Facilities	6,191,384	71,332	0	6,262,716
Transmission & Storage & Collection	23,362,493	801,969	(556,193)	23,608,269
Vehicles	318,807	32,484	(14,136)	337,155
Furniture and Equipment	467,297	7,471	(5,754)	469,014
<i>Total Capital Assets, Being Depreciated</i>	31,494,276	957,952	(576,083)	31,876,145
<i>Less Accumulated Depreciation:</i>				
Buildings	(523,026)	(43,391)	0	(566,417)
Treatment Facilities	(2,142,058)	(206,081)	0	(2,348,139)
Transmission & Storage & Collection	(5,284,819)	(559,591)	71,378	(5,773,032)
Vehicles	(136,721)	(50,040)	14,136	(172,625)
Furniture and Equipment	(334,290)	(28,771)	5,754	(357,307)
<i>Total Capital Assets Being Depreciated, Net</i>	(8,420,914)	(887,874)	91,268	(9,217,520)
<i>Total Capital Assets, Net</i>	\$24,600,717	\$459,993	(\$1,322,118)	\$23,738,592

Note 8 – Defined Benefit Retirement Plan – GASB Statement No. 27

Plan Description – The District participates 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-Direct Plan is a defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20 percent per year). Under the Member-Directed Plan, members accumulate retirement assets equal to the value of the member and (vested) employer contributions plus any investment earnings. The Combined Plan is a cost-sharing, multiple-employer defined benefit pension plan. Under the Combined Plan, OPERS invests employer contributions to provide a formula retirement benefit similar in nature to, but less than, the Traditional Pension Plan benefit. Member contributions, the investment of which is self-directed by members, accumulate retirement assets in a manner similar to the Member-Directed Plan.

OPERS provides retirement, disability, survivor and death benefits, and annual cost-of-living adjustments to members to the Traditional Pension and Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits.

Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code.

Earnhart Hill Regional Water and Sewer District
Notes to the Basic Financial Statements
For the Years Ended December 31, 2015 and 2014

Note 8 – Defined Benefit Retirement Plan – GASB Statement No. 27 (Continued)

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

Funding Policy – The Ohio Revised Code provides statutory authority for member and employer contributions. For 2014, member and employer contribution rates were consistent across all three plans. The 2014 member contribution rates were 10.00% of covered payroll for members.

The 2014 and 2013 employer contribution rate for state and local employers was 14.00% of covered payroll.

The District's contributions for OPERS for the years ended December 2014 and 2013 were \$95,690 and \$96,386, respectively. All required contributions have been made for each year.

Note 9 – Defined Benefit Retirement Plan – GASB Statement No. 68

Net Pension Liability

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

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

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

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

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

Earnhart Hill Regional Water and Sewer District
Notes to the Basic Financial Statements
For the Years Ended December 31, 2015 and 2014

Note 9 – Defined Benefit Retirement Plan – GASB Statement No. 68 (Continued)

Plan Description – Ohio Public Employees Retirement System (OPERS)

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

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

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

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

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

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

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

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

Earnhart Hill Regional Water and Sewer District
Notes to the Basic Financial Statements
For the Years Ended December 31, 2015 and 2014

Note 9 – Defined Benefit Retirement Plan – GASB Statement No. 68 (Continued)

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

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

The District's contractually required contribution was \$108,662 for 2015.

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

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

Proportionate Share of the Net Pension Liability	\$784,130
Proportion of the Net Pension Liability	0.006501%
Pension Expense	\$85,557

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

<i>Deferred Outflows of Resources</i>	
Net difference between projected and actual earnings on pension plan investments	\$41,839
District contributions subsequent to the measurement date	108,662
Total Deferred Outflows of Resources	<u>\$150,501</u>
<i>Deferred Inflows of Resources</i>	
Differences between expected and actual experience	<u>\$13,995</u>

Earnhart Hill Regional Water and Sewer District
Notes to the Basic Financial Statements
For the Years Ended December 31, 2015 and 2014

Note 9 – Defined Benefit Retirement Plan – GASB Statement No. 68 (Continued)

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

Year Ending December 31:	
2016	(\$4,003)
2017	(4,003)
2018	(9,379)
2019	(10,459)
Total	(\$27,844)

Actuarial Assumptions

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

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employers and plan members) and include the types of benefits provided at the time of each valuation. The total pension liability in the December 31, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

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

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

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

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

Earnhart Hill Regional Water and Sewer District
Notes to the Basic Financial Statements
For the Years Ended December 31, 2015 and 2014

Note 9 – Defined Benefit Retirement Plan – GASB Statement No. 68 (Continued)

OPERS manages investments in four investment portfolios: the Defined Benefits portfolio, the Health Care portfolio, the 115 Health Care Trust portfolio and the Defined Contribution portfolio. The Defined Benefit portfolio includes the investment assets of the Traditional Pension Plan, the defined benefit component of the Combined Plan, the annuitized accounts of the Member-Directed Plan and the VEBA Trust. Within the Defined Benefit portfolio, contributions into the plans are all recorded at the same time, and benefit payments all occur on the first of the month. Accordingly, the money-weighted rate of return is considered to be the same for all plans within the portfolio. The money weighted rate of return, net of investments expense, for the Defined Benefit portfolio is 6.95 percent for 2014.

The allocation of investment assets with the Defined Benefit portfolio is approved by the Board of Trustees as outlined in the annual investment plan. Plan assets are managed on a total return basis with a long-term objective of achieving and maintaining a fully funded status for the benefits provided through the defined benefit pension plans. The table below displays the Board-approved asset allocation policy for 2014 and the long-term expected real rates of return:

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

Discount Rate The discount rate used to measure the total pension liability was 8 percent. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and those of the contributing employers are made at the statutorily required rates. Based on those assumptions, the pension plan’s fiduciary net position was projected to be available to make all projected future benefits payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the District’s Proportionate Share of the Net Pension Liability to Changes in the Discount Rate The following table presents the District’s proportionate share of the net pension liability calculated using the current period discount rate assumption of 8 percent, as well as what the District’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is one-percentage-point lower (7 percent) or one-percentage-point higher (9 percent) than the current rate:

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

Earnhart Hill Regional Water and Sewer District
Notes to the Basic Financial Statements
For the Years Ended December 31, 2015 and 2014

Note 10 – Postemployment Benefits

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 healthcare plan, which includes a medical plan, prescription drug program and Medicare Part B premium reimbursement, to qualifying members of both the Traditional Pension and the Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits, including post-employment health care coverage.

In order to qualify for post-employment health care coverage, age-and-service retirees under the Traditional Pension and Combined Plans must have 10 or more years of qualifying Ohio service credit. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available. The health care coverage provided by OPERS meets the definition of an Other Post-Employment Benefit (OPEB) as described in GASB Statement No. 45. OPERS' eligibility requirements for post-employment health care coverage changed for those retiring on and after January 1, 2015. Please see the Plan Statement in the OPERS CAFR for details.

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

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

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

Employer contribution rates are expressed as a percentage of the covered payroll of active members. In 2015 and 2014, state and local employers contributed at a rate of 14.00% of covered payroll. These are the maximum employer contributions rates permitted by the Ohio Revised Code. Active members do not make contributions to the OPEB Plan.

OPERS' Post Employment Health Care plan was established under, and is administrated in accordance with, Internal Revenue Code 401(h). Each year, the OPERS Retirement Board determines the portion of the employer contribution rate that will be set aside for funding of post employment health care benefits. The portion of the employer contributions allocated to health care for members in the Traditional Plan was 2.0% during the calendar years 2015 and 2014. Effective January 1, 2016, the portion of employer contributions allocated to healthcare remains at 2% for both plans, as recommended by the OPERS' actuary. The OPERS Board of Trustees is also authorized to establish rules for the retiree or their surviving beneficiaries to pay a portion of the health care benefits provided. Payment amounts vary depending on the number of covered dependents and the coverage selected.

The employer contributions that were used to fund postemployment benefits for the years ended December 2015, 2014, 2013 were \$18,110, \$15,948, and \$7,414, respectfully. All required contributions have been made for each year.

Changes to the health care plan were adopted by the OPERS Board of Trustees on September 19, 2012, with a transition plan commencing January 1, 2014. With the passage of pension legislation under SB 343 and the approved health care changes, OPERS expects to be able to consistently allocate 4% of the employer contributions toward the health care fund after the end of the transition period.

Earnhart Hill Regional Water and Sewer District
Notes to the Basic Financial Statements
For the Years Ended December 31, 2015 and 2014

Note 11 – Budget

Budgetary activity for the years ended December 31, 2015 and 2014 follows:

Budgeted vs. Actual Receipts

	2015	2014
Budgeted Receipts	\$3,681,700	\$4,145,000
Actual Receipts	3,908,514	4,296,565
Variance	\$226,814	\$151,565

Budgeted vs. Actual Budgetary Basis Expenditures

	2015	2014
Appropriation Authority	\$5,929,556	\$4,906,850
Budgetary Expenditures	5,048,923	4,748,785
Variance	\$880,633	\$158,065

Note 12 – 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, 2015 that management believes might have a significant effect on the accompanying financial statements.

Note 13 – Federal Financial Assistance

The District received \$0 in financial assistance in 2015 and 2014.

Note 14 – Assessments Receivable

The details for the years ended December 31, 2015 and 2014 are as follows:

		Principal Collected From	Ending Receivable	Percent Collected
Construction Assessments	Total Assessment	Prepays and Auditor	Balance	
2015	\$2,102,001	\$998,087	\$1,103,914	47.5%
2014	2,102,001	965,728	1,136,273	45.9%

The assessment receivable balance at December 31, 2015 and 2014 includes deferred agricultural property construction assessments of \$851,715. This amount is recorded as a deferred inflow of resource in the accompanying financial statements and will be collected when the properties no longer qualify for agricultural property status, as defined in the Ohio Revised Code Chapter 929, and as certified by the County Auditor. The time frame for collection is undeterminable.

Earnhart Hill Regional Water and Sewer District
Notes to the Basic Financial Statements
For the Years Ended December 31, 2015 and 2014

Note 15 – Information by Division

The District maintains two divisions which provide water and sewer services. Information by division for the year ended December 31, 2015 and 2014 follows:

2015			
	Division		Total
	Water	Sewer	
Operating revenues	\$2,543,322	\$834,222	\$3,377,544
Operating expenses, before depreciation	1,610,824	502,761	2,113,585
Depreciation	578,802	295,918	874,720
Operating Income	353,696	35,543	389,239
Nonoperating revenues	410,907	112,780	523,687
Nonoperating expenses	133,776	84,820	218,596
Net Income	\$630,827	\$63,503	\$694,330
2014			
	Division		Total
	Water	Sewer	
Operating revenues	\$2,569,985	\$790,498	\$3,360,483
Operating expenses, before depreciation	1,588,421	471,814	2,060,235
Depreciation	595,889	291,985	887,874
Operating Income	385,675	26,699	412,374
Nonoperating revenues	862,754	23,329	886,083
Nonoperating expenses	697,138	87,901	785,039
Net Income (Loss)	\$551,291	(\$37,873)	\$513,418

Note 16 – New GASB Implementations and Restatement of Beginning Balances

During 2015, the District implemented a new capital asset accounting software. The District’s new software computed small differences in accumulated depreciation for certain assets as compared to the old software. The District opted to restate beginning net position to reconcile its financial statements to the new subsidiary capital asset accounting ledger.

For 2015, the District implemented Governmental Accounting Standards Board (GASB) Statement No. 68, “Accounting and Financial Reporting for Pensions-an Amendment of GASB Statement No. 27,” and GASB Statement No. 71, “Pension Transition for Contributions Made Subsequent to the Measurement Date-an Amendment of GASB Statement No. 68.” GASB 68 established standards for measuring and recognizing pension liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditure. The implementation of the new accounting pronouncements had the following effect on net position as reported December 31, 2014:

Earnhart Hill Regional Water and Sewer District
Notes to the Basic Financial Statements
For the Years Ended December 31, 2015 and 2014

Note 16 – New GASB Implementations and Restatement of Beginning Balances (Continued)

Net Position December 31, 2014	\$17,278,838
Adjustment for Comparative Statements:	
Accumulated Depreciation	<u>(70,928)</u>
Restated Net Position December 31, 2014 for Comparative Statements	\$17,207,910
Adjustments:	
Net Pension Liability	(766,419)
Deferred Outflows-Payments Subsequent to Measurement Date	<u>95,690</u>
Restated Net Position December 31, 2014	<u>\$16,537,181</u>

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

REQUIRED SUPPLEMENTARY INFORMATION

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

	2013	2014
<i>Ohio Public Employees Retirement System</i>		
District's proportion of the net pension liability	0.006501%	0.006501%
District's proportionate share of the net pension liability	\$766,419	\$784,130
District's covered-employee payroll	\$741,432	\$797,417
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	103.370100%	98.333745%
Plan fiduciary net position as a percentage of the total pension liability	86.357587%	86.450903%

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 2013.

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

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
<i>Ohio Public Employees Retirement System</i>										
Contractually required contribution	\$51,088	\$49,305	\$42,506	\$49,462	\$57,488	\$67,735	\$68,539	\$96,386	\$95,690	\$108,662
Contributions in relation to the contractually required contribution	51,088	49,305	42,506	49,462	57,488	67,735	68,539	96,386	95,690	108,662
Contribution deficiency (excess)	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
District's covered-employee payroll	\$555,306	\$590,474	\$607,222	\$608,760	\$644,730	\$677,352	\$685,387	\$741,432	\$797,417	\$905,517
Contributions as a percentage of covered-employee payroll	9.20%	8.35%	7.00%	8.13%	8.92%	10.00%	10.00%	13.00%	12.00%	12.00%



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Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by *Government Auditing Standards*

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

To the Board of Trustees:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the Earnhart Hill Regional Water and Sewer District, Pickaway County, Ohio as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the Earnhart Hill Regional Water and Sewer District's basic financial statements and have issued our report thereon dated May 19, 2016, wherein we noted as discussed in Note 16, the Earnhart Hill Regional Water and Sewer District adopted Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions - an Amendment of GASB Statement No. 27* and No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an Amendment of GASB Statement No. 68*. In addition, also disclosed in Note 16, the Earnhart Hill Regional Water and Sewer District restated its beginning fund balance to properly state accumulated depreciation.

Internal Control Over Financial Reporting

As part of our financial statement audit, we considered the Earnhart Hill Regional Water and Sewer 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 Earnhart Hill Regional Water and Sewer 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 Earnhart Hill Regional Water and Sewer 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.

Board of Trustees
Earnhart Hill Regional Water and Sewer District

Compliance and Other Matters

As part of reasonably assuring whether the Earnhart Hill Regional Water and Sewer 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 Earnhart Hill Regional Water and Sewer District's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the Earnhart Hill Regional Water and Sewer District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Julian & Grube, Inc.
May 19, 2016

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Dave Yost • Auditor of State

**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
AUGUST 9, 2016**