



OHIO AUDITOR OF STATE
KEITH FABER



**TRI-COUNTY RURAL WATER AND SEWER DISTRICT
WASHINGTON COUNTY
DECEMBER 31, 2017 AND 2016**

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OHIO AUDITOR OF STATE KEITH FABER



INDEPENDENT AUDITOR'S REPORT

Tri-County Rural Water and Sewer District
Washington County
5772 Buchanan Road
Waterford, Ohio 45786

To the Board of Trustees:

Report on the Financial Statements

We have audited the accompanying financial statements of the Tri-County Rural Water and Sewer District, Washington County, Ohio (the District), as of and for the years ended December 31, 2017 and 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the Table of Contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Tri-County Rural Water and Sewer District, Washington County, Ohio, as of December 31, 2017 and 2016, and the changes in its financial position and its cash flows for the years then ended in accordance with the accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Notes 8 and 9 to the financial statements, during the fiscal year ended December 31, 2016, 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 also GASB Statement No. 72, *Fair Value Measurement and Application*. 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 schedules of net pension and other post-employment benefit liabilities and pension and other post-employment benefit contributions listed in the Table of Contents to supplement the basic financial statements. Although this information is not part of the basic financial statements, the Governmental Accounting Standards Board considers it essential for placing the basic financial statements in an appropriate operational, economic, or historical context. We applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, consisting of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, to the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not opine or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to opine or provide any other assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 1, 2019, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.



Keith Faber
Auditor of State
Columbus, Ohio

March 1, 2019

**TRI-COUNTY RURAL WATER AND SEWER DISTRICT
WASHINGTON COUNTY
STATEMENT OF NET POSITION (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2017**

Assets

Current Assets:

Cash and Cash Equivalents	\$1,102,671
Accounts Receivable-Customers (Net)	<u>127,278</u>
Total Current Assets	<u>1,229,949</u>

Capital Assets:

Land	258,508
Buildings	218,960
Machinery and Equipment	222,060
Office Furniture and Fixtures	43,738
Autos and Trucks	47,035
Construction in Progress	6,588
Water System - Wells	199,576
Water System - Meter/Taps/Hydrants	666,885
Water System - Water Lines	10,446,494
Water System - Stations	920,258
Water System - Tanks/Towers	1,842,611
Less: Accumulated Depreciation	<u>(8,807,480)</u>
Net Property and Equipment	<u>6,065,233</u>

Other Assets:

Loan Closing Fees - Net of Amortization	34,060
Right of Ways	39,762
Advance Deposit	<u>335</u>
Total Other Assets	<u>74,157</u>

Total Assets	<u>7,369,339</u>
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Deferred Outflows of Resources - Pension	<u><u>\$103,647</u></u>
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**TRI-COUNTY RURAL WATER AND SEWER DISTRICT
WASHINGTON COUNTY
STATEMENT OF NET POSITION (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2017**

Liabilities and Net Position

Liabilities:

Current Liabilities:

Accounts Payable	\$12,203
Current Portion of Long-Term Debt	537,869
Customer Security Deposits	297
Payroll Withholdings	4,428
Accrued Interest Payable	39,475
Accrued Vacation and Sick Leave	7,260
Total Current Liabilities	<u>601,532</u>

Long Term Liabilities:

Notes Payable OWDA	3,069,392
Notes Payable OPWC	1,088,153
Less: Current Portion of Long-Term Debt	(537,869)
Net Pension Liability	264,773
Total Long-Term Liabilities	<u>3,884,449</u>

Total Liabilities	<u>4,485,981</u>
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Deferred Inflows of Resources - Pension	<u>1,576</u>
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Net Position:

Net Investment in Capital Assets	1,907,688
Unrestricted	<u>1,077,741</u>

Total Net Position	<u>\$2,985,429</u>
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The notes to the basic financial statements are an integral part of this statement.

**TRI-COUNTY RURAL WATER AND SEWER DISTRICT
WASHINGTON COUNTY
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEAR ENDED DECEMBER 31, 2017**

Operating Revenues:

Charge for Services	\$1,164,130
Tap Fees	33,900
Finance Charges	19,753
Reconnect Fees	3,600
Miscellaneous Income	28,878
Total Operating Revenues	<u>1,250,261</u>

Operating Expenses:

Advertising	36
Auto-Truck Travel	3,316
Amortization Expenses	1,746
Admin & General Expense	14
Board of Director Fees	4,750
Chemicals	16,102
Contract Labor	58,194
Depreciation Expense	556,416
Fuel, Oil and Grease	4,340
Dues and Subscriptions	268
Insurance	11,554
Hospital Insurance	29,290
Legal and Accounting	6,800
Licenses/Permits	2,798
Repairs and Maintenance	10,337
Miscellaneous Expenses	5,895
Office	13,544
Pension - PERS	59,069
Postage	7,182
Recording/Filing Fees	660
Rents	300
Salaries	151,621
Supplies	47,971
Payroll Taxes	3,016
Other Taxes	217
Telephone	3,455
Travel and Entertainment	787
Training	1,502
System Electric	56,789
Other Utilities	1,777
Sewer/Beverly Hills	7,242
Water Testing	5,101

Total Operating Expenses	<u>1,072,089</u>
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Operating Income	<u>\$178,172</u>
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**TRI-COUNTY RURAL WATER AND SEWER DISTRICT
WASHINGTON COUNTY
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2017**

Nonoperating Revenues (Expenses):	
Interest Earned	\$2,790
Surcharge/Financed Taps	2,149
Interest Expense	<u>(87,077)</u>
Total Nonoperating Revenues (Expenses)	<u>(82,138)</u>
Change in Net Position Before Capital Contribution	96,034
Capital Contributions	<u>215,766</u>
Change in Net Position	311,800
Net Position, Beginning of Year	<u>2,673,629</u>
Net Position, End of Year	<u><u>\$2,985,429</u></u>

**TRI-COUNTY RURAL WATER AND SEWER DISTRICT
WASHINGTON COUNTY
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2017**

Cash Flows from Operating Activities:	
Cash Received from Customers	\$1,238,629
Cash Payments to Suppliers for Goods and Services	(303,039)
Cash Payments to Employees for Services and Benefits	<u>(205,698)</u>
Net Cash Provided by (Used by) Operations	<u>729,892</u>
Cash Flows from Capital and Related Financing Activities:	
Retirement of Long-Term Debt	(487,603)
Acquisition of Property & Equipment and Projects	(388,463)
Proceeds from Long-Term Debt	163,714
Capital Contributions	215,766
Interest Paid	<u>(93,714)</u>
Net Cash Provided by (Used by) Capital and Related Financing Activities	<u>(590,300)</u>
Cash Flows from Investing Activities:	
Investment Income	2,790
Surcharged Finance Taps	<u>2,149</u>
Net Cash Provided (Used) by Investing Activities	<u>4,939</u>
Net Increase/(Decrease) in Cash and Cash Equivalents	144,531
Cash and Cash Equivalents - January 1	<u>958,140</u>
Cash and Cash Equivalents - December 31	<u><u>\$1,102,671</u></u>
Adjustments to Reconcile Operating Income to Cash Flows From Operating Activities	
Net Operating Income	\$178,172
Depreciation/Amortization	558,162
Decrease (Increase) in Accounts Receivable	(11,632)
Decrease (Increase) in Deferred Outflows	(26,936)
Increase/(Decrease) Deferred Inflows	(2,247)
Increase/(Decrease) Net Pension Liability	66,968
Increase/(Decrease) Payroll Withholdings	(83)
Increase (Decrease) Accounts Payable	(32,108)
Increase (Decrease) Accrued Payroll	<u>(404)</u>
Total Adjustments	<u>551,720</u>
Net Cash Provided by (Used by) Operating Activities	<u><u>\$729,892</u></u>

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

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**TRI-COUNTY RURAL WATER AND SEWER DISTRICT
WASHINGTON COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2017**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of the Entity

The Tri-County Rural Water and Sewer District Washington County, Ohio (the District), is a body corporate and politic established to exercise the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The District was established as a separate political subdivision of the State of Ohio under provision of Chapter 6119 of the Ohio Revised Code. The District is directed by an elected seven-member Board of Trustees. These board members are elected by the membership (any consumer who has paid for a tap). An appointed staff consisting of a general manager, distribution operator, and one office clerk are responsible for fiscal control of the resources of the District. The District provides water and sewer services to residents of the District. Management believes the financial statements represent all activities over which the District has control.

B. Measurement Focus and Basis of Accounting

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the business-type activities financial statements. Basis of accounting relates to the timing of measurements made. The accounting policies of the District conform to generally accepted accounting principles.

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

Enterprise activity is accounted for in the manner similar to private business enterprises where the intent of management is that the costs and expenses of providing goods and services to the general public on a continuing basis be financed or recovered primarily through user charges and where management has decided that periodic determination of revenues earned, expenses incurred, and net income is appropriate for capital maintenance, public policy, management control and accountability.

The District uses the accrual basis of accounting. Revenues are recognized in the accounting period in which they are earned, and expenses are recognized at the time they are incurred. Unbilled service charges receivable are recognized as revenue at year-end.

Operating revenues and expenses result from supplying water and providing for the collection, treatment and disposal of wastewater. Operating revenues consist primarily of user charges for water and sewage services based on water consumption. Operating expenses include the cost of providing these services, including administrative expense and depreciation of capital assets. Non-operating revenues and expenses are revenues and expenses not meeting the definition of operating revenues and expenses, and include revenues and expenses from capital and related financing activities and investing activities.

C. Budgetary Process

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

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

**TRI-COUNTY RURAL WATER AND SEWER DISTRICT
WASHINGTON COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2017**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Budgetary Process (Continued)

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.

D. Cash and Cash Equivalents

For purposes of the statement of cash flows, the District considers all investments with a maturity of three months or less at the time they are purchased to be pooled cash and investments and are reported as “cash and cash equivalents” in the accompanying financial statements.

E. Capital Assets

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not included or capitalized. Capital assets, which include property, plant and equipment of the District are recorded at cost. Property, plant, and equipment donated are recorded at their estimated fair value at the date of donation. Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of fixed assets is reflected in the capitalized value of the asset constructed, net of interest earned on the invested proceeds over the same period. Property, plant and equipment reflected are stated at historical cost (or estimated historical cost) and are updated for the cost of additions and retirements during the year. Depreciation has been provided on a straight-line basis over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Water Systems	25
Buildings	15
Furniture / Equipment	5-7
Vehicles	5

F. Net Assets

Net assets represent the difference all other financial statement elements. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

The District applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

G. Contributed Capital

Contributed capital consists of grants restricted to capital acquisitions, fixed assets received from developers and tap fees in excess of related costs. These assets are recorded at their fair market value on the date contributed.

**TRI-COUNTY RURAL WATER AND SEWER DISTRICT
WASHINGTON COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2017**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

H. Estimates

In preparing financial statements in conformity with generally accepted accounting principles, management must make estimates based on future events that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities as of the date of the financial statements, and revenues and expenses during the reporting period. Actual results could differ from these estimates.

2. DEPOSITS

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

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

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

Interim deposits are deposits of interim monies. Interim monies are those monies, which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit or by savings or deposit accounts, including passbook accounts.

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 District by the financial institution, or by a single collateral established by the financial institution to secure the repayment of all public monies deposited with the institution.

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

1. United States treasury 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 bank loan, 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;

**TRI-COUNTY RURAL WATER AND SEWER DISTRICT
WASHINGTON COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2017**

2. DEPOSITS (CONTINUED)

6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2), this section 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 Treasurers Investment pool (Star Ohio);
8. Commercial paper notes issued by any entity that is defined in division (D) of section 1705.01 of the Revised Code and has assets exceeding five hundred million dollars, and to which notes are rated at the time of purchase in the highest classification established by at least two standard rating services; the aggregate value of the notes does not exceed ten percent of the aggregate value of the outstanding commercial paper of the issuing corporation; the notes mature no later than two hundred seventy days after purchase; and
9. Bankers' acceptances for a period not to exceed 270 days and in an amount not to exceed 10% of the District's average portfolio.

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

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage, and short selling are also prohibited. An investment 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.

Custodial credit risk is the risk that in the event of the failure of the counterparty, the District's deposits may not be returned. According to state law, public depositories must give security for all public funds on deposit in excess of those funds that are insured by the Federal Deposit Insurance Corporation (FDIC) or by any other agency or instrumentality of the federal government. These institutions may either specifically collateralize individual accounts in lieu of amounts insured by the FDIC or may pledge a pool of government securities valued at least 105% of the total value of public monies on deposit at the institution.

The District's policy is to deposit money with financial institutions that are able to abide by the laws governing insurance and collateralization of public funds.

The carrying amount of all District deposits was \$1,102,471, exclusive of \$200 in cash on hand at December 31, 2017. The District's deposit bank balance as of December 31, 2017 was \$1,103,092. The District's balance was covered by FDIC for \$357,991 at December 31, 2017. The remainder was uninsured and uncollateralized with securities held by the pledging financial institution's trust department or agent but not in the District's name.

**TRI-COUNTY RURAL WATER AND SEWER DISTRICT
WASHINGTON COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2017**

3. LONG TERM LIABILITIES

Debt outstanding at December 31, 2017 consisted of the following:

	Principal	Interest Rate
OWDA - 7335	\$705,344	1.27%
OWDA - 2963	75,886	6.51%
OWDA - 2962	1,416,594	6.72%
OWDA - 2118	28,347	6.12%
OWDA - 2119	10,856	6.11%
OWDA - 2120	4,229	5.73%
OWDA - 2893	33,191	2.00%
OWDA - 2183	95,970	5.56%
OWDA - 4162	59,204	1.50%
OWDA - 6220	551,836	2.00%
OWDA - 5238	37,059	0.00%
OWDA - 3412	50,875	2.00%
OPWC - CR314	19,559	0.00%
OPWC - CR530	35,700	0.00%
OPWC - CR729	47,005	0.00%
OPWC - CR935	62,482	0.00%
OPWC - CR14C	86,352	2.00%
OPWC - CR20G	110,537	0.00%
OPWC - CR05T	184,987	0.00%
OPWC - CR17N	541,531	0.00%
	<u>\$4,157,545</u>	

The notes listed above are for the various fixed assets constructed to provide service from the wells to the distribution lines, including the operations plant and various storage facilities. Property and revenue of the District have been pledged to repay these debts. All loans are due in semi-annual installments due January 1 and July 1 of each year.

Amortization of the above debt, including interest, is as follows:

Year Ending December 31:	OWDA		OPWC	
	Principal	Interest	Principal	Interest
2018	\$403,652	\$83,371	\$58,732	\$864
2019	417,796	63,655	117,742	1,449
2020	443,835	47,732	118,119	1,073
2021	471,670	30,688	118,501	689
2022	50,062	12,799	77,411	299
2023-2027	165,918	47,626	220,764	0
2028-2032	129,467	34,207	174,679	0
2033-2037	134,068	22,076	115,219	0
2038-2042	130,958	9,772	92,176	0
2043-2047	26,918	405	0	0
	<u>\$2,374,344</u>	<u>\$352,331</u>	<u>\$1,093,343</u>	<u>\$4,374</u>

**TRI-COUNTY RURAL WATER AND SEWER DISTRICT
WASHINGTON COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2017**

4. CAPITAL ASSETS

A summary of the District's assets at December 31, 2017:

	Beginning Balance	Additions	Deletions	Ending Balance
Land	\$258,508	\$0	\$0	\$258,508
Depreciable Capital Assets:				
Buildings	218,960	0	0	218,960
Machinery and Equipment	194,585	27,475	0	222,060
Office Furniture and Fixtures	43,738	0	0	43,738
Autos and Trucks	47,035	0	0	47,035
Construction in Progress	958,227	0	(951,639)	6,588
Water System	12,772,693	1,303,132	0	14,075,825
Less: Accumulated Depreciation	<u>(8,251,063)</u>	<u>(556,418)</u>	<u>0</u>	<u>(8,807,481)</u>
	<u>\$6,242,683</u>	<u>\$774,189</u>	<u>(\$951,639)</u>	<u>\$6,065,233</u>

5. RISK MANAGEMENT

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

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

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

Casualty and Property Coverage

APEEP provides PEP with an excess risk-sharing program. Under this arrangement, PEP retains insured risks up to an amount specified in the contracts. At December 31, 2017, PEP retained \$350,000 for casualty claims and \$100,000 for property claims.

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

Financial Position

PEP's financial statements (audited by other auditor's) conform with generally accepted accounting principles, and reported the following assets, liabilities and net position at December 31, 2017.

	<u>2017</u>
Assets	\$44,452,326
Liabilities	<u>(13,004,011)</u>
Net Position	<u>\$31,448,315</u>

**TRI-COUNTY RURAL WATER AND SEWER DISTRICT
WASHINGTON COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2017**

5. RISK MANAGEMENT (CONTINUED)

At December 31, 2017 the liabilities above include approximately 11.8 million of estimated incurred claims payable. The assets above also include approximately \$11.2 million of unpaid claims to be billed. The Pool's membership increased to 527 members in 2017. These amounts will be included in future contributions from members when the related claims are due for payment. As of December 31, 2017, the District's share of these unpaid claims collectible in future years is approximately \$5,000.

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

2017 Contributions to PEP
\$8,375

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

6. DEFINED BENEFIT PENSION PLAN

Net Pension Liability

The net pension liability reported on the statement of net assets 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 each pension plan's fiduciary net position. The net pension liability calculation is dependent on critical long- term variables, including estimated average life expectancies, earnings on investments, cost of living adjustments and others. While these estimates use the best information available, unknowable future events require adjusting this estimate annually.

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

GASB 68 assumes the liability is solely the obligation of the employer, because (1) they benefit from employee services; and (2) State statute requires all funding to come from these employers. All contributions to date have come solely from these employers (which also includes costs paid in the form of withholdings from employees). State statute requires the pension plans to amortize unfunded liabilities within 30 years.

**TRI-COUNTY RURAL WATER AND SEWER DISTRICT
WASHINGTON COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2017**

6. DEFINED BENEFIT PENSION PLAN (CONTINUED)

If the amortization period exceeds 30 years, each pension plan's board must propose corrective action to the State legislature. Any resulting legislative change to benefits or funding could significantly affect the net pension liability. Resulting adjustments to the net pension liability would be effective when the changes are legally enforceable.

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

Plan Description – Ohio Public Employees Retirement System (OPERS)

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

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

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 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.

**TRI-COUNTY RURAL WATER AND SEWER DISTRICT
WASHINGTON COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2017**

7. DEFINED BENEFIT PENSION PLAN (CONTINUED)

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

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

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

Employer contribution rates are actuarially determined and are expressed as a percentage of covered payroll. The District's contractually required contribution was \$19,763 for 2017. Of this amount, \$0 is reported as an intergovernmental payable.

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

	OPERS
Proportionate Share of the	
Net Pension Liability	\$264,778
Proportion of the Net Pension Liability	0.001166%
Change in Proportionate Share Percentage	0.000024%
Pension Expense	\$57,548

**TRI-COUNTY RURAL WATER AND SEWER DISTRICT
WASHINGTON COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2017**

6. DEFINED BENEFIT PENSION PLAN (CONTINUED)

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

	<u>OPERS</u>
Deferred Outflows of Resources	
Net difference between projected and actual earnings on pension plan investments	\$39,433
Differences between expected and actual experience	359
Changes in Assumptions	41,997
District contributions subsequent to the measurement date	19,763
Change in proportion and differences between contributions and proportionate share of contributions	2,550
Total Deferred Outflows of Resources	<u>\$104,102</u>
 Deferred Inflows of Resources	
Differences between expected and actual experience	1,576
	<u>\$1,576</u>

\$19,763 reported as deferred outflows of resources related to pension resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending December 31, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

Year Ending December 31:	<u>OPERS</u>
2018	\$34,504
2019	35,311
2020	14,102
2021	(1,155)
Total	<u>\$82,762</u>

Actuarial Assumptions - OPERS

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

**TRI-COUNTY RURAL WATER AND SEWER DISTRICT
WASHINGTON COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2017**

6. DEFINED BENEFIT PENSION PLAN (CONTINUED)

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

Wage Inflation	3.25%
Future Salary Increases, including inflation	3.25% to 10.75% including wage inflation
COLA or Ad Hoc COLA simple	Pre 1/7/2013 Retirees: 3.00%, Simple; Post 1/7/2013 Retirees: 3.00% Simple through 2018, then 2.15% Simple
Investment Rate of Return	7.50%
Actuarial Cost Method	Individual entry age

Mortality rates were based on the RP-2014 Healthy Annuitant mortality table. For males, Healthy Annuitant Mortality tables were used, adjusted for mortality improvement back to the observation period base of 2006 and then established the base year as 2015. For females, Healthy Annuitant Mortality tables were used, adjusted for mortality improvements back to the observation period base year of 2006 and then established the base year as 2010. The mortality rates used in evaluating disability allowances were based on the RP-2014 Disabled mortality tables, adjusted for mortality improvement back to the observation base year of 2006 and then established the base year as 2015 for males and 2010 for females.

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

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

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 8.3 percent for 2016.

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

**TRI-COUNTY RURAL WATER AND SEWER DISTRICT
WASHINGTON COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2017**

6. DEFINED BENEFIT PENSION PLAN (CONTINUED)

Asset Class	Target Allocation	Weighted Average Long-Term Expected Real Rate of Return (Arithmetic)
Fixed Income	23.0%	2.75%
Domestic Equities	20.7%	6.34%
Real Estate	10.0%	4.75%
Private Equity	10.0%	8.97%
International Equities	18.3%	7.95%
Other Investments	18.0%	4.92%
Total	100.0%	5.66%

Discount Rate The discount rate used to measure the total pension liability was 7.5 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 7.5 percent, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one-percentage-point lower (6.5 percent) or one-percentage-point higher (8.5 percent) than the current rate:

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
District's proportionate share of the net pension liability	\$404,509	\$264,779	\$148,339

7. POSTEMPLOYMENT BENEFITS

Ohio Public Employees Retirement System

Plan Description - The Ohio Public Employees Retirement System (OPERS) administers three separate pension plans: the traditional 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.

**TRI-COUNTY RURAL WATER AND SEWER DISTRICT
WASHINGTON COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2017**

7. POSTEMPLOYMENT BENEFITS (CONTINUED)

OPERS maintains two cost-sharing, multiple-employer defined benefit postemployment health care trusts, which fund multiple health care plans including medical coverage, prescription drug coverage, deposits to a health reimbursement arrangement and Medicare Part B premium reimbursements, to qualifying benefit recipients of both the traditional pension and combined plans. Members of the member-directed plan do not qualify for ancillary benefits, including OPERS sponsored health care coverage.

In order to qualify for postemployment health care coverage, age and service retirees under the traditional pension and combined plans must have twenty or more years of qualifying Ohio service credit. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available. The health care coverage provided by OPERS meets the definition of an Other Post Employment Benefit (OPEB) as described in GASB Statement 45. See OPERS' CAFR referenced below for additional information.

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

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

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

Employer contribution rates are expressed as a percentage of the earnable salary of active members. In 2017, state and local employers contributed at a rate of 14.0 percent of earnable salary. These are the maximum employer contribution rates permitted by the Ohio Revised Code. Active member contributions do not fund health care.

OPERS maintains three health care trusts. The two cost-sharing, multiple employer trusts, the 401(h) Health Care Trust and the 115 Health Care Trust, work together to provide health care funding to eligible retirees of the Traditional Pension and Combined plans. The third trust is a Voluntary Employee's Beneficiary Association (VEBA) that provides funding for a Retiree Medical Account for Member-Directed Plan members. Each year, the OPERS Board of Trustees determines the portion of the employer contribution rate that will be set aside to fund health care plans. The portion of employer contributions allocated to health care for members in the Traditional Pension Plan and Combined Plan was 2.0 percent during calendar year 2016. As recommended by OPERS' actuary, the portion of employer contributions allocated to health care beginning January 1, 2017 changed to 1.0 percent for both plans. The Board is also authorized to establish rules for the retiree or their surviving beneficiaries to pay a portion of the health care provided. Payment amounts vary depending on the number of covered dependents and the coverage selected. The employer contribution as a percentage of covered payroll deposited to the VEBA for participants in the Member-Directed Plan for 2017 was 4.0 percent. The District's contributions allocated to fund post-employment health care benefits for the years ended December 31, 2017, 2016, and 2015 were \$1,520, \$3,011, and \$2,844, respectively. The full amount has been contributed for 2017, 2016, and 2015.

**TRI-COUNTY RURAL WATER AND SEWER DISTRICT
WASHINGTON COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2017**

8. SUBSEQUENT EVENTS

The District has evaluated events subsequent to the date of the basic financial statements through May 30, 2018 the date the financial statements were available to be issued. No events have occurred subsequent to the statement of financial date through May 30, 2018 that would require adjustment or disclosure in the financial statements.

**TRI-COUNTY RURAL WATER AND SEWER DISTRICT
WASHINGTON COUNTY
SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY**

***Ohio Public Employees Retirement System - Traditional Plan
Last Four Years (1)***

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
District's proportion of the net pension liability (asset) (percentage)	0.001166%	0.001142%	0.001130%	0.001130%
District's proportionate share of the net pension liability (asset)	\$ 264,773	\$ 197,805	\$ 136,291	\$ 133,212
District's covered payroll	\$ 150,558	\$ 142,192	\$ 138,575	\$ 165,867
District's proportionate share of the net pension liability (asset) as a percentage of its covered payroll	175.86%	139.11%	98.35%	80.31%
Plan fiduciary net position as a percentage of the total pension liability	77.25%	81.08%	86.45%	86.36%

(1) Information prior to fiscal year 2014 is not available.

*Will be built prospectively.

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

**TRI-COUNTY RURAL WATER AND SEWER DISTRICT
WASHINGTON COUNTY
SCHEDULE OF THE DISTRICT'S CONTRIBUTIONS**

***Ohio Public Employees Retirement System - Traditional Plan
Last Four Years (1)***

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Actuarially determined contribution	\$ 19,763	\$ 18,067	\$ 17,063	\$ 16,629
Actual contribution	<u>(19,763)</u>	<u>(18,067)</u>	<u>(17,063)</u>	<u>(16,629)</u>
Contribution deficit (surplus)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Districts's covered payroll	\$ 152,023	\$ 150,558	\$ 142,192	\$ 138,575
Actual contribution as a percentage of covered payroll	13.00%	12.00%	12.00%	12.00%

(1) Information prior to fiscal year 2014 is not available.

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

**TRI-COUNTY RURAL WATER AND SEWER DISTRICT
WASHINGTON COUNTY
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2017**

Note A – Significant Actuarial Assumptions

In 2016, the Board's actuarial consultants conducted an experience study for the period 2011 through 2015, comparing assumptions to actual results. The experience study incorporates both a historical review and forward-looking projections to determine the appropriate set of assumptions to keep the plan on a path toward full funding. Information from this study led to changes in both demographic and economic assumptions, with the most notable being a reduction in the actuarially assumed rate of return from 8.0% down to 7.5%, for the defined benefit investments. The changes in assumptions created a deferred outflow of \$5,328,800,352 for the Traditional Plan and \$103,647 for the District.

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**TRI-COUNTY RURAL WATER AND SEWER DISTRICT
WASHINGTON COUNTY
STATEMENT OF NET POSITION
FOR THE YEAR ENDED DECEMBER 31, 2016**

Assets

Current Assets:

Cash and Cash Equivalents	\$958,140
Accounts Receivable-Customers (Net)	115,646
Total Current Assets	1,073,786

Capital Assets:

Land	258,508
Buildings	218,960
Machinery and Equipment	194,585
Office Furniture and Fixtures	43,738
Autos and Trucks	47,035
Construction in Progress	958,227
Water System - Wells	199,576
Water System - Meter/Taps/Hydrants	507,532
Water System - Water Lines	9,302,716
Water System - Stations	920,258
Water System - Tanks/Towers	1,842,611
Less: Accumulated Depreciation	(8,251,063)
Net Property and Equipment	6,242,683

Other Assets:

Loan Closing Fees - Net of Amortization	26,310
Right of Ways	39,762
Advance Deposit	335
Total Other Assets	66,407

Total Assets	7,382,876
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Deferred Outflows of Resources-Pension	\$76,711
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**TRI-COUNTY RURAL WATER AND SEWER DISTRICT
WASHINGTON COUNTY
STATEMENT OF NET POSITION
FOR THE YEAR ENDED DECEMBER 31, 2016**

Liabilities and Net Position

Liabilities:

Current Liabilities:

Accounts Payable	\$44,311
Current Portion of Long-Term Debt	474,459
Customer Security Deposits	297
Payroll Withholdings	4,511
Accrued Interest Payable	46,112
Accrued Vacation and Sick Leave	7,664
Total Current Liabilities	<u>577,354</u>

Long Term Liabilities:

Notes Payable OWDA	3,276,090
Notes Payable OPWC	1,205,345
Less: Current Portion of Long-Term Debt	(474,459)
Net Pension Liability	197,805
Total Long-Term Liabilities	<u>4,204,781</u>

Total Liabilities	4,782,135
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Deferred Inflows of Resources - Pension	<u>3,823</u>
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Net Position:

Invested in Capital Assets, Net of Related Debt	1,761,247
Unrestricted	<u>912,382</u>

Total Net Pension	<u>\$2,673,629</u>
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The notes to the basic financial statements are an intergral part of this statement.

**TRI-COUNTY RURAL WATER AND SEWER DISTRICT
WASHINGTON COUNTY
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEAR ENDED DECEMBER 31, 2016**

Operating Revenues:

Charge for Services	\$1,084,272
Tap Fees	29,600
Finance Charges	19,119
Reconnect Fees	4,400
Miscellaneous Income	23,730
Total Operating Revenues	<u>1,161,121</u>

Operating Expenses:

Advertising	101
Auto-Truck Travel	1,208
Amortization Expenses	1,253
Admin & General Expense	253
Board of Director Fees	8,030
Chemicals	11,935
Contract Labor	79,377
Depreciation Expense	527,914
Fuel, Oil and Grease	4,862
Dues and Subscriptions	1,260
Insurance	8,124
Hospital Insurance	39,747
Legal and Accounting	8,274
Licenses/Permits	2,558
Repairs and Maintenance	14,837
Miscellaneous Expenses	1,243
Office	7,945
Pension - PERS	31,642
Postage	6,792
Recording/Filing Fees	1,436
Rents	450
Salaries	151,136
Supplies	27,242
Payroll Taxes	4,175
Other Taxes	490
Telephone	3,365
Travel and Entertainment	635
Training	1,106
System Electric	54,218
Other Utilities	1,589
Sewer/Beverly Hills	4,491
Water Testing	8,258
Total Operating Expenses	<u>1,015,946</u>

Operating Income	<u>\$145,175</u>
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**TRI-COUNTY RURAL WATER AND SEWER DISTRICT
WASHINGTON COUNTY
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEAR ENDED DECEMBER 31, 2016**

Nonoperating Revenues (Expenses):	
Interest Earned	\$937
Gain(Loss) on Sale of Asset	(379)
Surcharge/Financed Taps	2,039
Interest Expense	<u>(68,836)</u>
Total Nonoperating Revenues (Expenses)	<u>(66,239)</u>
Change in Net Position Before Capital Contribution	78,936
Capital Contributions	383,967
Change in Net Position	462,903
Net Position, Beginning of Year Restated (See Note 9)	<u>2,210,726</u>
Net Position, End of Year	<u><u>\$2,673,629</u></u>

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

**TRI-COUNTY RURAL WATER AND SEWER DISTRICT
WASHINGTON COUNTY
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEAR ENDED DECEMBER 31, 2016**

Cash Flows from Operating Activities:	
Cash Received from Customers	\$1,150,124
Cash Payments to Suppliers for Goods and Services	(227,110)
Cash Payments to Employees for Services and Benefits	<u>(213,567)</u>
Net Cash Provided by (Used by) Operations	<u>709,447</u>
Cash Flows from Capital and Related Financing Activities:	
Retirement of Long-Term Debt	(452,563)
Acquisition of Property and Equipment	(1,172,516)
Sale of Trailer	7,500
Capital Contributions	383,967
Proceeds from Long-Term Debt	670,177
Interest Paid	<u>(105,852)</u>
Net Cash Provided by (Used by) Capital and Related Financing Activities	<u>(669,287)</u>
Cash Flows from Investing Activities:	
Investment Income	936
Surcharged Finance Taps	<u>2,039</u>
Net Cash Provided (Used) by Investing Activities	<u>2,975</u>
Net Increase/(Decrease) in Cash and Cash Equivalents	43,135
Cash and Cash Equivalents - January 1	<u>915,005</u>
Cash and Cash Equivalents - December 31	<u><u>\$958,140</u></u>
Adjustments to Reconcile Operating Income to Cash Flows From Operating Activities	
Net Operating Income	\$145,175
Depreciation/Amortization	529,167
Decrease (Increase) in Accounts Receivable	(10,997)
Decrease(Increase) in Prepaid Expenses	221
Decrease(Increase) Deferred Outflows	(52,376)
Decrease(Increase) Deferred Inflows	1,429
Increase (Decrease) Accounts Payable	32,749
Increase (Decrease) Accrued Payroll	4,289
Increase/(Decrease) Pension Liability	61,514
Increase (Decrease) Accrued Payroll Taxes	<u>(1,724)</u>
Total Adjustments	<u>564,272</u>
Net Cash Provided by (Used by) Operating Activities	<u><u>\$709,447</u></u>

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

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**TRI-COUNTY RURAL WATER AND SEWER DISTRICT
WASHINGTON COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2016**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of the Entity

The Tri-County Rural Water and Sewer District Washington County, Ohio (the District), is a body corporate and politic established to exercise the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The District was established as a separate political subdivision of the State of Ohio under provision of Chapter 6119 of the Ohio Revised Code. The District is directed by an elected seven-member Board of Trustees. These board members are elected by the membership (any consumer who has paid for a tap). An appointed staff consisting of a general manager, distribution operator, and one office clerk are responsible for fiscal control of the resources of the District. The District provides water and sewer services to residents of the District. Management believes the financial statements represent all activities over which the District has control.

B. Measurement Focus and Basis of Accounting

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the business-type activities financial statements. Basis of accounting relates to the timing of measurements made. The accounting policies of the District conform to generally accepted accounting principles.

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

Enterprise activity is accounted for in the manner similar to private business enterprises where the intent of management is that the costs and expenses of providing goods and services to the general public on a continuing basis be financed or recovered primarily through user charges and where management has decided that periodic determination of revenues earned, expenses incurred, and net income is appropriate for capital maintenance, public policy, management control and accountability.

The District uses the accrual basis of accounting. Revenues are recognized in the accounting period in which they are earned, and expenses are recognized at the time they are incurred. Unbilled service charges receivable are recognized as revenue at year-end.

Operating revenues and expenses result from supplying water and providing for the collection, treatment and disposal of wastewater. Operating revenues consist primarily of user charges for water and sewage services based on water consumption. Operating expenses include the cost of providing these services, including administrative expense and depreciation of capital assets. Non-operating revenues and expenses are revenues and expenses not meeting the definition of operating revenues and expenses, and include revenues and expenses from capital and related financing activities and investing activities.

C. Budgetary Process

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

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

**TRI-COUNTY RURAL WATER AND SEWER DISTRICT
WASHINGTON COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2016**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Budgetary Process (Continued)

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.

D. Cash and Cash Equivalents

For purposes of the statement of cash flows, the District considers all investments with a maturity of three months or less at the time they are purchased to be pooled cash and investments and are reported as “cash and cash equivalents” in the accompanying financial statements.

E. Capital Assets

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets’ lives are not included or capitalized. Capital assets, which include property, plant and equipment of the District are recorded at cost. Property, plant, and equipment donated are recorded at their estimated fair value at the date of donation. Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of fixed assets is reflected in the capitalized value of the asset constructed, net of interest earned on the invested proceeds over the same period. Property, plant and equipment reflected are stated at historical cost (or estimated historical cost) and are updated for the cost of additions and retirements during the year. Depreciation has been provided on a straight-line basis over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Water Systems	25
Buildings	15
Furniture / Equipment	5-7
Vehicles	5

F. Net Assets

Net assets represent the difference all other financial statement elements. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

The District applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

G. Contributed Capital

Contributed capital consists of grants restricted to capital acquisitions, fixed assets received from developers and tap fees in excess of related costs. These assets are recorded at their fair market value on the date contributed.

**TRI-COUNTY RURAL WATER AND SEWER DISTRICT
WASHINGTON COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2016**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

H. Estimates

In preparing financial statements in conformity with generally accepted accounting principles, management must make estimates based on future events that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities as of the date of the financial statements, and revenues and expenses during the reporting period. Actual results could differ from these estimates.

2. DEPOSITS

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

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

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

Interim deposits are deposits of interim monies. Interim monies are those monies, which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit or by savings or deposit accounts, including passbook accounts.

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 District by the financial institution, or by a single collateral established by the financial institution to secure the repayment of all public monies deposited with the institution.

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

1. United States treasury notes, bills, bonds, or any other obligation or security issued by the United State 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 bank loan, 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;

**TRI-COUNTY RURAL WATER AND SEWER DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
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2. DEPOSITS (CONTINUED)

6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2), this section 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 Treasurers Investment pool (STAROHIO);
8. Commercial paper notes issued by any entity that is defined in division (D) of section 1705.01 of the Revised Code and has assets exceeding five hundred million dollars, and to which notes are rated at the time of purchase in the highest classification established by at least two standard rating services; the aggregate value of the notes does not exceed ten percent of the aggregate value of the outstanding commercial paper of the issuing corporation; the notes mature no later than two hundred seventy days after purchase; and
9. Bankers' acceptances for a period not to exceed 270 days and in an amount not to exceed 10% of the District's average portfolio.

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

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage, and short selling are also prohibited. An investment 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.

Custodial credit risk is the risk that in the event of the failure of the counterparty, the District's deposits may not be returned. According to state law, public depositories must give security for all public funds on deposit in excess of those funds that are insured by the Federal Deposit Insurance Corporation (FDIC) or by any other agency or instrumentality of the federal government. These institutions may either specifically collateralize individual accounts in lieu of amounts insured by the FDIC or may pledge a pool of government securities valued at least 105% of the total value of public monies on deposit at the institution.

The District's policy is to deposit money with financial institutions that are able to abide by the laws governing insurance and collateralization of public funds.

The carrying amount of all District deposits was \$957,941, exclusive of \$200 in cash on hand at December 31, 2016. The District's deposit bank balance as of December 31, 2016 was \$979,492. The District's balance was covered by FDIC for \$355,898 at December 31, 2016. The remainder was collateralized by the financial institution's public entity deposit pool in the manner described above.

**TRI-COUNTY RURAL WATER AND SEWER DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2016**

3. LONG TERM LIABILITIES

Debt outstanding at December 31, 2016 consisted of the following:

	Principal	Interest Rate
OWDA - 7335	\$541,630	1.27%
OWDA - 2963	92,049	6.51%
OWDA - 2962	1,716,783	6.72%
OWDA - 2118	33,074	6.12%
OWDA - 2119	12,480	6.11%
OWDA - 2120	4,806	5.73%
OWDA - 2893	36,742	2.00%
OWDA - 2183	106,915	5.56%
OWDA - 4162	62,050	1.50%
OWDA - 6220	567,881	2.00%
OWDA - 5238	38,706	0.00%
OWDA - 3412	62,974	2.00%
OPWC - CR314	25,059	0.00%
OPWC - CR530	45,900	0.00%
OPWC - CR729	60,435	0.00%
OPWC - CR935	80,334	0.00%
OPWC - CR14C	104,514	2.00%
OPWC - CR20G	126,328	0.00%
OPWC - CR05T	198,200	0.00%
OPWC - CR17N	564,575	0.00%
	<u>\$4,481,435</u>	

The notes listed above are for the various fixed assets constructed to provide service from the wells to the distribution lines, including the operations plant and various storage facilities. Property and revenue of the District have been pledged to repay these debts. All loans are due in semi-annual installments due January 1 and July 1 of each year.

Amortization of the above debt, including interest, is as follows:

Year Ending December 31:	OWDA		OPWC	
	Principal	Interest	Principal	Interest
2017	\$370,412	\$92,668	\$58,551	\$1,045
2018	403,652	83,371	117,373	1,819
2019	417,796	63,655	117,742	1,449
2020	443,835	47,732	118,119	1,073
2021	471,670	30,688	118,501	690
2022-2026	191,451	52,219	261,918	299
2027-2031	127,163	36,512	181,286	0
2032-2036	135,366	24,544	121,826	0
2037-2041	130,106	12,271	115,219	0
2042-2046	53,306	1,340	0	0
	<u>\$2,744,757</u>	<u>\$445,000</u>	<u>\$1,210,535</u>	<u>\$6,375</u>

**TRI-COUNTY RURAL WATER AND SEWER DISTRICT
WASHINGTON COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2016**

4. CAPITAL ASSETS

A summary of the District's assets at December 31, 2016:

	Beginning Balance	Additions	Deletions	Ending Balance
Land	\$258,508	\$0	\$0	\$258,508
Depreciable Capital Assets:				
Buildings	177,235	72,559	(30,834)	218,960
Machinery and Equipment	183,652	10,933	0	194,585
Office Furniture and Fixtures	39,909	3,829	0	43,738
Autos and Trucks	47,035	0	0	47,035
Construction in Progress	81,225	877,002	0	958,227
Water System	12,574,493	198,200	0	12,772,693
Less: Accumulated Depreciation	<u>(7,746,104)</u>	<u>(519,026)</u>	<u>14,067</u>	<u>(8,251,063)</u>
	<u>\$5,615,953</u>	<u>\$643,497</u>	<u>(\$16,767)</u>	<u>\$6,242,683</u>

5. RISK MANAGEMENT

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

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

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

Casualty and Property Coverage

APEEP provides PEP with an excess risk-sharing program. Under this arrangement, PEP retains insured risks up to an amount specified in the contracts. At December 31, 2016, PEP retained \$350,000 for casualty claims and \$100,000 for property claims.

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

Financial Position

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

	2016
Assets	\$42,182,281
Liabilities	<u>(13,396,700)</u>
Net Position	<u>\$28,785,581</u>

**TRI-COUNTY RURAL WATER AND SEWER DISTRICT
WASHINGTON COUNTY
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5. RISK MANAGEMENT (CONTINUED)

At December 31, 2016 the liabilities above include approximately 12.0 million of estimated incurred claims payable. The assets above also include approximately \$11.5 million of unpaid claims to be billed. The Pool's membership increased to 520 members in 2016. These amounts will be included in future contributions from members when the related claims are due for payment. As of December 31, 2016, the District's share of these unpaid claims collectible in future years is approximately \$5,000

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

2016 Contributions to PEP
\$7,814

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

6. DEFINED BENEFIT PENSION PLAN

Net Pension Liability

The net pension liability reported on the statement of net assets 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 each pension plan's fiduciary net position. The net pension liability calculation is dependent on critical long- term variables, including estimated average life expectancies, earnings on investments, cost of living adjustments and others. While these estimates use the best information available, unknowable future events require adjusting this estimate annually.

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

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

**TRI-COUNTY RURAL WATER AND SEWER DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
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6. DEFINED BENEFIT PENSION PLAN (CONTINUED)

The proportionate share of each 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 both the accrual and modified accrual bases of accounting.

Plan Description – Ohio Public Employees Retirement System (OPERS)

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

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

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

Group A	Group B	Group C
Eligible to retire prior to January 7, 2013 or five years after January 7, 2013	20 years of service credit prior to January 7, 2013 or eligible to retire ten years after January 7, 2013	Members not in other Groups and members hired on or after January 7, 2013
State and Local	State and Local	State and Local
Age and Service Requirements:	Age 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 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.

**TRI-COUNTY RURAL WATER AND SEWER DISTRICT
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6. DEFINED BENEFIT PENSION PLAN (CONTINUED)

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

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

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

	State and Local
2016 Statutory Maximum Contribution Rates	
Employer	14.0 %
Employee	10.0 %
2016 Actual Contribution Rates	
Employer:	
Pension	12.0 %
Post-employment Health Care Benefits	2.0 %
Total Employer	14.0 %
Employee	10.0 %

Employer contribution rates are actuarially determined and are expressed as a percentage of covered payroll. The District's contractually required contribution was \$18,067 for 2016. Of this amount, \$0 is reported as an intergovernmental payable.

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, 2015, 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. Following is information related to the proportionate share and pension expense:

	OPERS
Proportionate Share of the Net Pension Liability	\$197,805
Proportion of the Net Pension Liability	0.001142%
Change in Proportionate Share Percentage	-0.000012%
Pension Expense	\$28,634

**TRI-COUNTY RURAL WATER AND SEWER DISTRICT
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6. DEFINED BENEFIT PENSION PLAN (CONTINUED)

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

	OPERS
Deferred Outflows of Resources	
Net difference between projected and actual earnings on pension plan investments	\$58,144
District contributions subsequent to the measurement date	18,067
Change in proportion and differences between contributions and proportionate share of contributions	953
Total Deferred Outflows of Resources	\$77,164
 Deferred Inflows of Resources	
Differences between expected and actual experience	3,823
	\$3,823

\$18,067 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, 2017. 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:	OPERS
2017	\$13,158
2018	14,086
2019	14,873
2020	13,157
Total	\$55,274

Actuarial Assumptions - OPERS

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

**TRI-COUNTY RURAL WATER AND SEWER DISTRICT
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6. DEFINED BENEFIT PENSION PLAN (CONTINUED)

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employers and plan members) and include the types of benefits provided at the time of each valuation. The total pension liability in the December 31, 2015, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Wage Inflation	3.75%
Future Salary Increases, including inflation	4.25% to 10.05% including wage inflation
COLA or Ad Hoc COLA simple	Pre 1/7/2013 Retirees: 3.00%, Simple; Post 1/7/2013 Retirees: 3.00% Simple through 2015, then 2.8% Simple
Investment Rate of Return	8.0%
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.

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 0.4 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:

Discount Rate The discount rate used to measure the total pension liability was 8.0 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.

**TRI-COUNTY RURAL WATER AND SEWER DISTRICT
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6. DEFINED BENEFIT PENSION PLAN (CONTINUED)

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	\$315,158	\$197,805	\$98,829

7. POSTEMPLOYMENT BENEFITS

Ohio Public Employees Retirement System

Plan Description - The Ohio Public Employees Retirement System (OPERS) administers three separate pension plans: the traditional 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 two cost-sharing, multiple-employer defined benefit postemployment health care trusts, which fund multiple health care plans including medical coverage, prescription drug coverage, deposits to a health reimbursement arrangement and Medicare Part B premium reimbursements, to qualifying benefit recipients of both the traditional pension and combined plans. Members of the member-directed plan do not qualify for ancillary benefits, including OPERS sponsored health care coverage.

In order to qualify for postemployment health care coverage, age and service retirees under the traditional pension and combined plans must have twenty or more years of qualifying Ohio service credit. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available. The health care coverage provided by OPERS meets the definition of an Other Post Employment Benefit (OPEB) as described in GASB Statement 45. See OPERS' CAFR referenced below for additional information.

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

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

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

**TRI-COUNTY RURAL WATER AND SEWER DISTRICT
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7. POSTEMPLOYMENT BENEFITS (CONTINUED)

Employer contribution rates are expressed as a percentage of the earnable salary of active members. In 2015, state and local employers contributed at a rate of 14.0 percent of earnable salary. These are the maximum employer contribution rates permitted by the Ohio Revised Code. Active member contributions do not fund health care.

OPERS maintains three health care trusts. The two cost-sharing, multiple employer trusts, the 401(h) Health Care Trust and the 115 Health Care Trust, work together to provide health care funding to eligible retirees of the Traditional Pension and Combined plans. The third trust is a Voluntary Employee's Beneficiary Association (VEBA) that provides funding for a Retiree Medical Account for Member-Directed Plan members. Each year, the OPERS Board of Trustees determines the portion of the employer contribution rate that will be set aside to fund health care plans. The portion of employer contributions allocated to health care for members in the Traditional Pension Plan and Combined Plan was 2.0 percent during calendar year 2015. As recommended by OPERS' actuary, the portion of employer contributions allocated to health care beginning January 1, 2016 remained at 2.0 percent for both plans. The Board is also authorized to establish rules for the retiree or their surviving beneficiaries to pay a portion of the health care provided. Payment amounts vary depending on the number of covered dependents and the coverage selected. The employer contribution as a percentage of covered payroll deposited to the VEBA for participants in the Member-Directed Plan for 2015 was 4.5 percent.

The District's contributions allocated to fund post-employment health care benefits for the years ended December 31, 2016, 2015, and 2014 were \$3,011, \$2,844, and \$2,772, respectively. The full amount has been contributed for 2016, 2015, and 2014.

8. CHANGE IN ACCOUNTING PRINCIPLES

In 2016, the District implemented GASB Statement No. 72, "Fair Value Measurement and Application". GASB Statement No. 72 addressed accounting and financial reporting issues related to fair value measurements. This Statement provides guidance for determining a fair value measurement for financial reporting purposes for applying fair value to certain investments and disclosures related to all fair value measurements. These changes were incorporated in the District's fiscal year 2016 financial statements; however, there was no effect on beginning net position/fund balance.

9. PRIOR PERIOD RESTATEMENT

The District restated its beginning net position to include a net pension liability calculation as required by GASB Statement No. 68. The impact on net position is as follows:

	2016
Beginning Net Position, Before Restatement	\$2,325,076
GASB 68 Adjustment	(114,350)
Beginning Net Position, Restated	\$2,210,726

10. SUBSEQUENT EVENTS

The District has evaluated events subsequent to the date of the basic financial statements through May 30, 2018 the date the financial statements were available to be issued. No events have occurred subsequent to the statement of financial date through May 30, 2018 that would require adjustment or disclosure in the financial statements.

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**TRI-COUNTY RURAL WATER AND SEWER DISTRICT
WASHINGTON COUNTY
SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY**

***Ohio Public Employees Retirement System - Traditional Plan
Last Three Years (1)***

	<u>2016</u>	<u>2015</u>	<u>2014</u>
District's proportion of the net pension liability (asset) (percentage)	0.001142%	0.001130%	0.001130%
District's proportionate share of the net pension liability (asset)	\$ 197,805	\$ 136,291	\$ 133,212
District's covered payroll	\$ 142,192	\$ 138,575	\$ 165,867
District's proportionate share of the net pension liability (asset) as a percentage of its covered payroll	139.11%	98.35%	80.31%
Plan fiduciary net position as a percentage of the total pension liability	81.08%	86.45%	86.36%

(1) Information prior to fiscal year 2014 is not available.

*Will be built prospectively.

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

**TRI-COUNTY RURAL WATER AND SEWER DISTRICT
WASHINGTON COUNTY
SCHEDULE OF THE DISTRICT'S CONTRIBUTIONS**

***Ohio Public Employees Retirement System - Traditional Plan
Last Three Years (1)***

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Actuarially determined contribution	\$ 18,067	\$ 17,063	\$ 16,629
Actual contribution	<u>(18,067)</u>	<u>(17,063)</u>	<u>(16,629)</u>
Contribution deficit (surplus)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Districts's covered payroll	\$ 150,558	\$ 142,192	\$ 138,575
Actual contribution as a percentage of covered payroll	12.00%	12.00%	12.00%

(1) Information prior to fiscal year 2014 is not available.

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

OHIO AUDITOR OF STATE KEITH FABER



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

Tri-County Rural Water and Sewer District
Washington County
5772 Buchanan Road
Waterford, Ohio 45786

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 business-type activities of the Tri-County Rural Water and Sewer District, Washington County, Ohio (the District), as of and for the years ended December 31, 2017 and 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated March 1, 2019, wherein we noted the District adopted Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all internal control deficiencies that might be material weaknesses or significant deficiencies. Therefore, unidentified material weaknesses or significant deficiencies may exist. Given these limitations, we did not identify any deficiencies in internal control that we consider material weaknesses. We did identify a certain deficiency in internal control, described in the accompanying Schedule of Findings that we consider a significant deficiency. We consider Finding 2017-001 to be a significant deficiency.

Compliance and Other Matters

As part of reasonably assuring whether the District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, opining on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed an instance of noncompliance or other matter we must report under *Government Auditing Standards* which is described in the accompanying Schedule of Findings as item 2017-001.

Purpose of this Report

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



Keith Faber
Auditor of State
Columbus, Ohio

March 1, 2019

**TRI-COUNTY RURAL WATER AND SEWER DISTRICT
WASHINGTON COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2017 AND 2016**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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FINDING NUMBER 2017-001

Noncompliance and Significant Deficiency

Ohio Rev. Code § 135.18 provides that each institution designated as a public depository and awarded public deposits, shall provide security for the repayment of all public deposits by securing all uninsured public deposits of each public depositor separately (Ohio Rev. Code § 135.18(A)(1)), or as applicable to Ohio Rev. Code §§ 135.181 or 135.182 by establishing and pledging to the treasurer of state a single pool of collateral for the benefit of every public depositor (Ohio Rev. Code § 135.18(A)(2)). If a public depository elects to provide security pursuant to Ohio Rev. Code § 135.18(A)(1), the public depository must pledge eligible securities and equal to at least one hundred five per cent (Ohio Rev. Code § 135.18(B)).

Ohio Rev. Code § 135.181 provides in lieu of the specific pledging requirements of Ohio Rev. Code §§ 135.18 and 135.37, a public depository at its option may pledge a single pool of eligible securities to secure the repayment of all its public deposits not otherwise secured, provided that at all times the total market value of the securities so pledged is at least equal to one hundred five per cent of its uninsured public deposits to be secured by the pooled securities.

Ohio Rev. Code § 135.181(L) provides upon request of a treasurer no more often than four times per year, a public depository shall report the amount of public moneys deposited by the treasurer and secured pursuant to division (B) of this section, and the total market value of the pool of securities pledged to secure public moneys held by the depository, including those deposited by the treasurer. Upon request of a treasurer no more often than four times per year, a qualified trustee shall report the total market value of the pool of securities deposited with it by the depository and shall provide an itemized list of the securities in the pool. These reports shall be made as of the date the treasurer specifies.

Pursuant to House Bill 64 of the 131st Ohio General Assembly, the treasurer of state created the Ohio Pooled Collateral System (OPCS) July 1, 2017. Under this program, public depositories that select the pledging method prescribed in Ohio Rev. Code § 135.18(A)(2) or Ohio Rev. Code § 135.37(A)(2), shall pledge to the treasurer of state a single pool of eligible securities for the benefit of all public depositors to secure the repayment of all uninsured public deposits at the public depository; provided that at all times the total market value of the securities so pledged is at least equal either of the following:

- a) One hundred two percent of the total amount of all uninsured public deposits;
- b) An amount determined by rules adopted by the treasurer of state that set forth the criteria for determining the aggregate market value of the pool of eligible securities pledged by a public depository pursuant to division (B) of this section. Such criteria shall include, but are not limited to, prudent capital and liquidity management by the public depository and the safety and soundness of the public depository as determined by a third-party rating organization. (Ohio Rev. Code § 135.182(B)(1)).

The public depository shall designate a qualified trustee approved by the treasurer of state for the safekeeping of eligible pledged securities (Ohio Rev. Code § 135.182(C)).

Tri-County Rural Water and Sewer District (the District) had a depository agreement with Citizens National Bank of Beverly during 2017. Citizens National Bank of Beverly did not join Ohio Pooled Collateral System (OPCS) provided by the Treasurer of State of Ohio or provide specific pledged collateral for the District, but continued to maintain pooled collateral as provided under prior Ohio Rev. Code Section 135.181.

**TRI-COUNTY RURAL WATER AND SEWER DISTRICT
WASHINGTON COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2017 AND 2016
(Continued)**

**FINDINGS RELATED TO THE FINANCIAL STATEMENTS
REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)**

FINDING NUMBER 2017-001 (Continued)

Noncompliance and Significant Deficiency (Continued)

We recommend the District review their pledged collateral, at a minimum quarterly or when depository amount changes, to ensure the depository is maintaining proper collateral. At various times throughout the year, the District should print or obtain the collateral pledged report and maintain until the next audit.

OHIO AUDITOR OF STATE KEITH FABER



TRI-COUNTY RURAL WATER AND SEWER DISTRICT

WASHINGTON 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
MARCH 19, 2019**