



bhm cpa group, inc.
CERTIFIED PUBLIC ACCOUNTANTS

NORTHWEST REGIONAL WATER DISTRICT
SCIOTO COUNTY

REGULAR AUDIT

For the Years Ended December 31, 2018 and 2017
Fiscal Years Audited Under GAGAS: 2018 and 2017

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OHIO AUDITOR OF STATE
KEITH FABER



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Board of Directors
Northwest Regional Water District
123 Smith Street
P. O. Box 158
McDermott, Ohio 45652-0158

We have reviewed the *Independent Auditor's Report* of the Northwest Regional Water District, Scioto County, prepared by BHM CPA Group, Inc., for the audit period January 1, 2017 through December 31, 2018. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

A handwritten signature in black ink that reads "Keith Faber".

Keith Faber
Auditor of State
Columbus, Ohio

September 3, 2019

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NORTHWEST REGIONAL WATER DISTRICT
SCIOTO COUNTY

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SCIOTO COUNTY

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Independent Auditor's Report

Northwest Regional Water District
Scioto County
123 Smith Street
McDermott, Ohio 45652

Members of the Board of Directors:

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of the Northwest Regional Water District, Scioto County, Ohio (the District), as of and for the years ended December 31, 2018, 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 opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of the overall financial statement presentation.

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

Opinion

In our opinion, the financial statements, referred to above present fairly, in all material respects, the financial position of the business-type activities of the Northwest Regional Water District, Scioto County, Ohio, as of December 31, 2018, 2017 and 2016, and the changes in financial position and its cash flows for the years then ended in accordance with the accounting principles generally accepted in the United States of America.

Emphasis of Matter

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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require this presentation to include *Management's discussion and analysis*, schedules of net pension and other post-employment benefits liabilities, 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 managements 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 June 28, 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.

BHM CPA Group

BHM CPA Group Inc.
Piketon, Ohio
June 28, 2019

**NORTHWEST REGIONAL WATER DISTRICT
SCIOTO COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE YEARS ENDED DECEMBER 31, 2018 and 2017**

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

FINANCIAL HIGHLIGHTS

The total assets and deferred outflows of resources exceeded total liabilities and deferred inflows of resources by December 31, 2018 by \$8.96 million and on December 31, 2017 by \$9.49 million. The District's net position decreased by \$121 thousand (1.3%) in 2018 and by \$275 thousand (2.9%) in 2017.

The District's Operating Revenues decreased in 2018 by \$24 thousand (.9%) and in 2017 they increased by \$135 thousand (5.2%). Operating and Maintenance Expenses (excluding depreciation expense) increased \$110 thousand (4.8%) in 2018 and in 2017 (excluding depreciation expense) increased \$256 thousand (12.9%). Depreciation expense increased \$20 thousand (4.9%) in 2018 and increased in 2017 by \$25 thousand (6.5%).

OVERVIEW OF BASIC FINANCIAL STATEMENTS

The District is a single enterprise fund using proprietary fund accounting, similar to private sector business. The Basic Financial Statements are presented using the accrual basis of accounting.

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

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

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

**NORTHWEST REGIONAL WATER DISTRICT
SCIOTO COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE YEARS ENDED DECEMBER 31, 2018 and 2017**

STATEMENTS OF NET POSITION

Table 1 summarizes the Statements of Net Position of the District. Capital Assets are reported less accumulated depreciation. "Invested in Capital Assets, Net of Related Debt", are Capital Assets less accumulated depreciation and outstanding debt that was used to acquire those assets.

	Table 1				
	2018	2017	Change	2016	Change
Current and Other Assets	\$ 2,911,607	\$ 2,760,439	\$ 151,168	\$ 2,582,897	\$ 177,542
Capital Assets, Net	8,247,193	8,518,360	(271,167)	8,415,152	103,208
Total Assets	11,158,800	11,278,799	(119,999)	10,998,049	280,750
Deferred Outflows of Resources - Pension	198,112	409,590	(211,478)	293,211	116,379
Deferred Outflows of Resources - OPEB	41,239	-	41,239	-	-
Deferred Outflows of Resources - Total	239,351	409,590	(170,239)	293,211	116,379
Long Term Liabilities:					
Other Long-Term Liabilities	804,188	903,666	(99,478)	1,002,773	(99,107)
Net Pension Liability	709,100	998,484	(289,384)	697,975	300,509
Net OPEB Liability	458,261	-	458,261	-	-
Other Current Liabilities	257,787	281,921	(24,134)	353,626	(71,705)
Total Liabilities	2,229,336	2,184,071	45,265	2,054,374	129,697
Deferred Inflows of Resources - Pension	166,210	5,942	160,268	14,043	(8,101)
Deferred Inflows of Resources - OPEB	34,137	-	34,137	-	-
Deferred Inflows of Resources - Total	200,347	5,942	194,405	14,043	(8,101)
Net Position					
Invested in Capital Assets,					
Net of Related Debt	7,343,526	7,518,433	(174,907)	7,235,708	282,725
Unrestricted	1,624,942	1,979,943	(355,001)	1,987,135	(7,192)
Total Net Position	\$ 8,968,468	\$ 9,498,376	\$ (529,908)	\$ 9,222,843	\$ 275,533

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

**NORTHWEST REGIONAL WATER DISTRICT
SCIOTO COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE YEARS ENDED DECEMBER 31, 2018 and 2017**

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

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

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

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

The employee enters the employment exchange with the knowledge that the employer's promise is limited not by contract but by law. The employer enters the exchange also knowing that there is a specific, legal limit to its contribution to the retirement system. In Ohio, there is no legal means to enforce the unfunded liability of the pension/OPEB plan *as against the public employer*. State law operates to mitigate/lessen the moral obligation of the public employer to the employee, because all parties enter the employment exchange with notice as to the law. The retirement system is responsible for the administration of the pension and OPEB plans.

Most long-term liabilities have set repayment schedules or, in the case of compensated absences (i.e. sick and vacation leave), are satisfied through paid time-off or termination payments. There is no repayment schedule for the net pension liability or the net OPEB liability. As explained above, changes in benefits, contribution rates, and return on investments affect the balance of these liabilities, but are outside the control of the local government. In the event that contributions, investment returns, and other changes are insufficient to keep up with required payments, State statute does not assign/identify the responsible party for the unfunded portion. Due to the unique nature of how the net pension liability and the net OPEB liability are satisfied, these liabilities are separately identified within the long-term liability section of the statement of net position. In accordance with GASB 68 and GASB 75, the District's statements prepared on an accrual basis of accounting include an annual pension expense and an annual OPEB expense for their proportionate share of each plan's *change* in net pension liability and net OPEB liability, respectively, not accounted for as deferred inflows/outflows.

As a result of implementing GASB 75, the District is reporting a net OPEB liability and deferred inflows/outflows of resources related to OPEB on the accrual basis of accounting. This implementation also had the effect of restating net position at December 31, 2017, from \$9,498,376 to \$9,089,223.

The District is presenting comparative financial statements; however, the 2017 financial statements have not been restated due to the implementation of Governmental Accounting Standards Board (GASB) 75 which relates to the recording of other post-employment benefits. The 2017 financial statements were not restated as sufficient information was not available to restate these financial statements in their entirety.

**NORTHWEST REGIONAL WATER DISTRICT
SCIOTO COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE YEARS ENDED DECEMBER 31, 2018 and 2017**

The District's Net Position (prior to implementation of GASB 75) decreased by \$529 thousand (5.6%) in 2018 and increased by \$275 thousand (2.9%) in 2017. The decrease in 2018 was primarily due to depreciation which decreased net capital assets and to the implementation of GASB 75 which increase other post-employment benefit liabilities. The increase in 2017 is a result of excess revenues over expenses.

Unrestricted net position decreased by \$355 thousand in 2018 and decreased \$7 thousand in 2017. Unrestricted net position may be used without constraints established by bond covenants or other legal requirements. Cash and Cash equivalents increased \$188 thousand in 2018 which is primarily due to expenses exceeding revenues. Cash and Cash equivalents increased by \$158 thousand in 2017.

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

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

Table 2

	2018	2017	Change	2016	Change
Operating Revenues	\$ 2,721,369	\$ 2,745,725	\$ (24,356)	\$ 2,610,762	\$ 134,963
Total Operating Revenues	2,721,369	2,745,725	(24,356)	2,610,762	134,963
Non-Operating Revenues	31,411	19,566	11,845	22,705	(3,139)
Total Revenues	2,752,780	2,765,291	(12,511)	2,633,467	131,824
Operating Expenses					
(Excluding Depreciation)	2,404,714	2,294,435	110,279	2,037,964	256,471
Depreciation Expense	425,272	405,359	19,913	380,405	24,954
Total Operating Expenses	2,829,986	2,699,794	130,192	2,418,369	281,425
Non-Operating Expenses	43,549	39,964	3,585	41,044	(1,080)
Total Expenses	2,873,535	2,739,758	133,777	2,459,413	280,345
Capital Contributions	-	250,000	(250,000)	-	250,000
Changes in Net Position	(120,755)	275,533	(396,288)	174,054	101,479
Net Position Beginning of Year *	9,089,223	9,222,843	(133,620)	9,048,789	174,054
Net Position End of Year	\$ 8,968,468	\$ 9,498,376	\$ (529,908)	\$ 9,222,843	\$ 275,533

* - As restated for GASB 75, see Note K for additional information.

Operating revenues decreased \$24 thousand in 2018 due to a leveling out of charges for services and increased by \$135 thousand in 2017 due to an increase in charges for services.

Operating expenses increased by about \$130 thousand in 2018 primarily due to increases in salaries and wages, purchased water and OPEB expense which was partially offset by a decrease in pension expense. Operating expenses increased about \$281 thousand in 2017 primarily due to an increase in salaries, wages, purchased water and pension expense.

Non-Operating revenues increased by \$12 thousand in 2018 due primarily to increases in interest income and intergovernmental revenue.

**NORTHWEST REGIONAL WATER DISTRICT
SCIOTO COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE YEARS ENDED DECEMBER 31, 2018 and 2017**

CAPITAL ASSETS

The District had \$16.9 million invested in total Capital Assets (before depreciation) at the end of 2018 and \$16.8 million at the end of 2017, an increase of \$154 thousand (less than 1.0%) in 2018 and an increase of \$451 thousand (2.7%) in 2017. These increases are due to continued updates to the Water District's infrastructure.

Table 3

	2018	2017	Change	2016	Change
Non-Depreciable Capital Assets					
Land	\$120,754	\$120,754	\$0	\$120,754	\$0
Constructions in progress	-	348,725	(348,725)	2,975	345,750
Total Non-Depreciable	120,754	469,479	(348,725)	123,729	345,750
Capital Assets					
Depreciable Capital Assets					
Utility plant – lines	12,823,038	12,397,986	425,052	12,381,461	16,525
Utility plant - towers	1,649,945	1,649,945	-	1,649,945	-
Utility plant - meters	347,342	347,342	-	347,342	-
Utility plant - office and garage	276,351	268,433	7,918	260,119	8,314
Office equipment and furniture	144,332	132,857	11,475	132,857	-
Radio telemetry system	346,485	346,485	-	344,711	1,774
Trucks and equipment	1,240,604	1,182,219	58,385	1,104,031	78,188
Totals Before Accumulated Depreciation	16,828,097	16,325,267	502,830	16,220,466	104,801
Accumulated Depreciation	(8,701,658)	(8,276,386)	(425,272)	(7,929,043)	(347,343)
Net Depreciable Capital Assets	8,126,439	8,048,881	77,558	8,291,423	(242,542)
Total Capital Assets	\$ 8,247,193	\$ 8,518,360	\$ (271,167)	\$ 8,415,152	\$ 103,208

For additional information regarding capital assets please see Note C to the Basic Financial Statements.

**NORTHWEST REGIONAL WATER DISTRICT
 SCIOTO COUNTY
 MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
 FOR THE YEARS ENDED DECEMBER 31, 2018 and 2017**

DEBT

At December 31, 2018 total debt outstanding of \$903,667 compared to \$999,927 at December 31, 2017. Ohio Publics Work Commission debt was issued in 2011 for water line extensions.

Table 4

	2018	2017	Change	2016	Change
Ohio Public Works					
Commission (OPWC)	\$ 141,093	\$ 170,836	\$ (29,743)	\$ 203,425	\$ (32,589)
Ohio Water Development					
Authority (OWDA)	762,574	829,091	(66,517)	976,019	(146,928)
Total Long Term Debt	903,667	999,927	(96,260)	1,179,444	(179,517)
Less: Current Maturities	99,479	96,261	3,218	176,671	(80,410)
Net Total Long Term Debt	<u>\$ 804,188</u>	<u>\$ 903,666</u>	<u>\$ (99,478)</u>	<u>\$ 1,002,773</u>	<u>\$ (99,107)</u>

The District's debt is paid from operating revenues generated by the Water District. For additional information regarding debt please see Note D to the Basic Financial Statements.

CASH

Cash and cash equivalents were \$2,423,072 on December 31, 2018 and \$2,235,143 on December 31, 2017.

CONTACT INFORMATION

Questions regarding this report and requests for additional information should be forwarded to Patti Slye, Office Manager, Northwest Regional Water District, P.O. Box 158, McDermott, Ohio 45652 or (740) 259-2789.

NORTHWEST REGIONAL WATER DISTRICT

SCIOTO COUNTY

STATEMENT OF NET POSITIONS

AS OF DECEMBER 31, 2018 AND 2017

	2018	2017
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 2,423,072	\$ 2,235,143
Accounts receivable, net allowance for doubtful accounts	467,656	504,559
Prepaid expenses	20,879	20,737
TOTAL CURRENT ASSETS	2,911,607	2,760,439
NONCURRENT ASSETS		
Capital Assets:		
Non-depreciable capital assets	120,754	469,479
Depreciable capital assets, net	8,126,439	8,048,881
TOTAL NONCURRENT ASSETS	8,247,193	8,518,360
DEFERRED OUTFLOWS OF RESOURCES		
Pension	198,112	409,590
OPEB	41,239	-
TOTAL DEFERRED OUTFLOWS OF RESOURCES	239,351	409,590
TOTAL ASSETS and DEFERRED OUTFLOWS OF RESOURCES	\$ 11,398,151	\$ 11,688,389
	2018	2017
LIABILITIES		
CURRENT LIABILITIES		
Notes payable - current portion	\$ 99,479	\$ 96,261
Accounts Payable	63,825	56,721
Accrued Expenses	94,483	128,939
TOTAL CURRENT LIABILITIES	257,787	281,921
LONG-TERM LIABILITIES		
Net Pension Liability	709,100	998,484
Net OPEB Liability	458,261	-
Notes payable - less current portion	804,188	903,666
TOTAL LONG-TERM LIABILITIES	1,971,549	1,902,150
TOTAL LIABILITIES	2,229,336	2,184,071
DEFERRED INFLOWS OF RESOURCES		
Pension	166,210	5,942
OPEB	34,137	-
TOTAL DEFERRED INFLOWS OF RESOURCES	200,347	5,942
NET POSITION		
Net Investment in Capital Assets	7,343,526	7,518,433
Unrestricted	1,624,942	1,979,943
TOTAL NET POSITION	8,968,468	9,498,376
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES and NET POSITION	\$ 11,398,151	\$ 11,688,389

See accompanying notes to the basic financial statements.

NORTHWEST REGIONAL WATER DISTRICT

SCIOTO COUNTY

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

For the Years Ended December 31, 2018 and 2017

	2018	2017
OPERATING REVENUES		
Water	\$ 2,566,747	\$ 2,605,273
Tap fees	38,508	27,581
Service charges	23,260	27,020
Late charges	88,044	85,851
Other	4,810	-
TOTAL OPERATING REVENUES	2,721,369	2,745,725
OPERATING EXPENSE		
Salaries, wages and benefits	1,033,985	942,297
Utilities	168,796	153,940
Depreciation expense	425,272	405,359
Purchased water	666,156	625,286
Telemetry	24,803	12,569
Maintenance	143,071	121,151
Truck and equipment expense	46,434	43,925
Billing expense	19,677	19,824
Pension expense	172,354	253,689
OPEB expense	42,006	-
Payroll taxes	9,574	8,615
Insurance	20,645	26,303
Office supplies and postage	31,238	31,169
Legal and accounting fees	6,312	20,665
Travel and auto expense	1,445	1,433
Other expenses	18,218	33,569
TOTAL OPERATING EXPENSES	2,829,986	2,699,794
Operating Income (Loss)	\$ (108,617)	\$ 45,931
NONOPERATING REVENUES (EXPENSES)		
Interest Income	14,439	7,123
Intergovernmental	16,972	12,443
Interest expense	(43,549)	(39,964)
Net other income (expense)	(12,138)	(20,398)
Increase (decrease) in net position before capital contributions	(120,755)	25,533
Capital contributions - intergovernmental	-	250,000
CHANGES IN NET POSITION	(120,755)	275,533
NET POSITION, BEGINNING OF YEAR - AS RESTATED	9,089,223	9,222,843
NET POSITION, END OF YEAR	\$ 8,968,468	\$ 9,498,376

See accompanying notes to the basic financial statements.

NORTHWEST REGIONAL WATER DISTRICT

SCIOTO COUNTY

STATEMENT OF CASH FLOWS

For the Years Ended December 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers	\$ 2,753,462	\$ 2,726,151
Cash received from other income	4,810	-
Cash payments to suppliers for goods and services	(1,181,839)	(1,085,496)
Cash payments for employee services and benefits	(1,126,001)	(1,023,881)
Net cash provided by operating activities	<u>450,432</u>	<u>616,774</u>
 CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Principal payments - OPWC loans	(29,743)	(32,589)
Principal payments - OWDA loans	(66,517)	(146,928)
Interest payments - OWDA loans	(26,577)	(27,521)
Grants Received	-	250,000
Acquisition of Capital Assets	(154,105)	(508,567)
Net cash used for capital and related financing activities	<u>(276,942)</u>	<u>(465,605)</u>
 CASH FLOWS FROM INVESTING ACTIVITIES		
Interest on cash and investments	14,439	7,123
	<u>14,439</u>	<u>7,123</u>
Net increase in cash and cash equivalents	187,929	158,292
 Cash and cash equivalents, beginning of year	<u>2,235,143</u>	<u>2,076,851</u>
Cash and cash equivalents, end of year	<u>\$ 2,423,072</u>	<u>\$ 2,235,143</u>

NORTHWEST REGIONAL WATER DISTRICT

SCIOTO COUNTY

STATEMENT OF CASH FLOWS - Continued

For the Years Ended December 31, 2018 and 2017

	2018	2017
Reconciliation of operating income (loss) to net cash provided by operating activities:		
Operating income (loss)	\$ (108,617)	\$ 45,931
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Depreciation	425,272	405,359
Changes in assets and liabilities:		
(Increase)/Decrease in accounts receivable	36,903	(19,574)
(Increase)/Decrease in prepaids	(142)	324
(Increase) in Deferred Outflows of Resources-Pension	211,478	(116,379)
(Increase) in Deferred Outflows of Resources-OPEB	(35,268)	-
Increase/(Decrease) in accounts payable	7,104	4,014
Increase/(Decrease) in accrued expenses	(34,456)	4,691
Increase/(Decrease) in Net Pension Liability	(289,384)	300,509
Increase/(Decrease) in Net OPEB Liability	43,137	-
Increase/(Decrease) in Deferred Inflows of Resources-Pension	160,268	(8,101)
Increase/(Decrease) in Deferred Inflows of Resources-OPEB	34,137	-
Total adjustments	559,049	570,843
Net cash provided by operating activities	\$ 450,432	\$ 616,774
NONCASH TRANSACTIONS		
Intergovernmental revenue - interest subsidy	\$ 16,972	\$ 12,443
Interest expense - interest subsidy	\$ (16,972)	\$ (12,443)

See accompanying notes to the basic financial statements.

NORTHWEST REGIONAL WATER DISTRICT
SCIOTO COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2018 and 2017

NOTE A – NATURE OF ORGANIZATION

Northwest Regional Water District (hereafter referred to as NRWD or the District) was created by the Court of Common Pleas of Scioto County in August of 1966 in accordance with the provisions of Section 6119 et.seq. of the Ohio Revised Code. The District operates under the direction of a twelve member board of trustees. An appointed staff consisting of an office manager and two clerks are responsible for fiscal control of the resources of the District. The District was established to provide an adequate and uncontaminated water supply for the consumption of the water district users, for industrial and business use, and for fire protection. The District serves all parts of the following political subdivisions:

Rush Township	Washington Township
Union Township	Franklin Township
Morgan Township	Jefferson Township
Rarden Village	Brushcreek Township
Otway Village	Camp Creek Township

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. Reporting Entity

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

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

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

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

NORTHWEST REGIONAL WATER DISTRICT
SCIOTO COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2018 and 2017

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2. Basis of Presentation - Fund Accounting

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

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

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

3. Basis of Accounting

The accounting records are maintained on the accrual basis of accounting for financial reporting purposes. Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. Unbilled service charges receivable are recognized as revenue at year end. Expenses are recognized at the time they are incurred.

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. The proprietary fund is accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets, deferred outflows of resources, liabilities and deferred inflows of resources associated with the operation of the fund are included on the statement of net position. This measurement focus emphasizes the determination of net income. Proprietary fund type operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in net position.

4. Budgetary Process

The Ohio Revised Code requires that each fund be budgeted annually. The District has adopted a budget for the years ended December 31, 2018 and 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.

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.

5. Cash and Cash Equivalents

Cash balances of the District’s enterprise fund are presented as “Cash and Cash Equivalents” on the statement of net position. Interest income earned by the District totaled \$14,439 and \$7,123, respectively, for the years ended December 31, 2018 and 2017.

NORTHWEST REGIONAL WATER DISTRICT
SCIOTO COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2018 and 2017

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

During fiscal year 2018 and 2017, investments were limited to STAR Ohio, Morgan Stanley Smith Barney investment account, savings accounts and certificates of deposits. Except for nonparticipating investment contracts, investments are reported at fair value which is based on quoted market prices. Nonparticipating investment contracts such as repurchase agreements, savings accounts and non-negotiable certificates of deposit are recorded at cost.

The District has invested funds in the State Treasury Asset Reserve of Ohio (STAR Ohio) during fiscal years 2018 and 2017. STAR Ohio is an investment pool managed by the State Treasurer’s office which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio’s share price which is the price the investment could be sold for on December 31, 2018 and 2017.

The District also has invested funds with broker Morgan Stanley Smith Barney. The invested funds consist of a money fund, mutual funds and certificate of deposits.

For purposes of the statement of cash flows and for presentation on the statement of net position, investments with an initial maturity of more than three months are reported as investments.

6. Capital Assets

Capital assets acquired or constructed for the general use of the District in providing service are recorded at cost. The District has a capitalization threshold of \$1,000. Donated assets are recorded at their estimated acquisition value at the time received. Depreciation of capital assets of the District is calculated utilizing the straight-line method. All assets reported in the basic financial statements are at cost less accumulated depreciation. The estimated useful lives by major capital asset class are as follows:

Lines	50 years	Office/garage building	19 years
Tanks/towers/meters	50 years	Trucks and equipment	5-10 years
Radio telemetry system	25 years	Office equipment and furniture	5-10 years

7. Compensated Absences

Compensated absences of the District consist of vacation and sick time to the extent that payment to the employees for these absences are attributable to services already rendered and are not contingent on a specific event that is outside the control of the District and its employees.

In accordance with provisions of GASB Statement No. 16, “Accounting for Compensated Absences,” a liability for vacation leave is accrued if a) the employees’ rights to payment are attributable to services already rendered; and b) it is probable that the employer will compensate the employees for the benefits through paid time off or other means, such as cash payment at termination or retirement.

Unused sick pay is recorded as a liability based on the Ohio Revised Code Section 124.38. Employees are entitled to 3.08 hours of sick leave for each completed 80 hours up to a maximum of 960 hours and are entitled to a lump sum payment of 1/2 of accumulated sick pay upon retirement or termination if they have more than ten years of service. At December 31, 2018 and 2017, the total vested liability for accumulated unpaid vacation, sick leave and compensatory time recorded was \$72,568 and \$111,246, respectively.

8. Interest Expense

Interest expense represents the interest portion on loan payments the Ohio Water Development District (OWDA).

9. Prepaid Expenses

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

NORTHWEST REGIONAL WATER DISTRICT
SCIOTO COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2018 and 2017

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

10. Accounts Receivable

Accounts receivable are reflected at their gross value reduced by the estimated amount that is expected to be uncollectible. Increases to the allowance are recorded by a provision for bad debt expense. The allowance is maintained by management at a level considered adequate to cover possible losses that are currently anticipated based on past experience, general economic conditions, information about specific account situations, and other factors and estimates which are subject to change over time.

Management considers all accounts receivable to be collected in full and may periodically allocate portions of the allowance for specific problem accounts, with the whole allowance available for any debts that occur. An account is charged off by management as a loss when deemed uncollectible, although most delinquent accounts receivable may be certified and collected as a special assessment, subject to foreclosure for nonpayment. Receivables are presented at net on the statement of net position.

11. Estimates

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

12. Balance Sheet Classifications

The Water District is required to classify its balance sheet, detailing current and noncurrent assets, deferred outflows of resources, current and noncurrent liabilities, deferred inflows of resources and restricted and unrestricted net position, as follows:

- (1) Current: Due within one year from December 31, 2018
- (2) Noncurrent: Due after December 31, 2018
- (3) Restricted: Restricted for usage by bond and note covenants and grant restrictions
- (4) Unrestricted: Not restricted for usage

Within the Water District there only exist unrestricted net positions. Restricted net position would be used to cover eligible expenses before unrestricted net position would be used. The unrestricted net position may, upon Water District authorization, be used by the Water District for any lawful purpose.

13. Long Term Obligations

The District records fund obligations not expected to be paid within one year by available financial resources as long-term debt, which consists of OPWC notes and OWDA loans.

14. Deferred Outflows and Deferred Inflows of Resources

Deferred outflows of resources represent a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expenditures/expenses) until then. The District recorded a deferred outflow of resources for pension and other postemployment benefits. The deferred outflows of resources related to the pension and other postemployment benefits are explained in Note I and Note J. The District reports a deferred inflow of resources which represents an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenues) until that time. For the District these amounts consisted of special assessments which are recognized as a receivable; however, they are not recognized as revenue since these properties are in an agricultural deferred status and the revenue cannot be collected until the properties are converted to a non-agricultural use. The District also reports a deferred inflow of resources which represents an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenues) until that time. For the District this was for pensions and postemployment benefits. (See Note I and Note J)

NORTHWEST REGIONAL WATER DISTRICT
SCIOTO COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2018 and 2017

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

15. Net Position

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

16. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activities of the District. These revenues consist of certain sales and fees. Operating expenses are necessary costs incurred to provide the goods or services that are the primary activity of the District. Revenues and expenses not meeting this definition are reported as non-operating.

17. Pensions/Other Post Employment Benefits(OPEB)

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

**NORTHWEST REGIONAL WATER DISTRICT
SCIOTO COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2018 and 2017**

NOTE C – CAPITAL ASSETS

Capital assets activity for the year ended December 31, 2018 was as follows:

	Ending Balance at 12/31/2017	Additions	Deletions	Ending Balance at 12/31/2018
Capital Assets, Not Being Depreciated				
Land	\$ 120,754	\$ -	\$ -	\$ 120,754
Construction in Progress	348,725	76,327	(425,052)	-
Total Capital Assets, Not Being Depreciated	469,479	76,327	(425,052)	120,754
Capital Assets, Being Depreciated				
Utility plant - lines	12,397,986	425,052	-	12,823,038
Utility plant - towers	1,649,945	-	-	1,649,945
Utility plant - meters	347,342	-	-	347,342
Utility plant - office and garage	268,433	7,918	-	276,351
Office equipment and furniture	132,857	11,475	-	144,332
Radio telemetry system	346,485	-	-	346,485
Trucks and equipment	1,182,219	58,385	-	1,240,604
Total Capital Assets, Being Depreciated	16,325,267	502,830	-	16,828,097
Less Accumulated Depreciation:				
Utility plant - lines	(5,835,473)	(256,466)	-	(6,091,939)
Utility plant - towers	(602,470)	(32,999)	-	(635,469)
Utility plant - meters	(260,859)	(8,081)	-	(268,940)
Utility plant - office and garage	(193,844)	(11,646)	-	(205,490)
Office equipment and furniture	(118,369)	(7,499)	-	(125,868)
Radio telemetry system	(319,165)	(5,069)	-	(324,234)
Trucks and equipment	(946,206)	(103,512)	-	(1,049,718)
Total Accumulated Depreciation	(8,276,386)	(425,272)	-	(8,701,658)
Total Capital Assets Being Depreciated, Net	8,048,881	77,558	-	8,126,439
Total Capital Assets	\$ 8,518,360	\$ 153,885	\$ (425,052)	\$ 8,247,193

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**NORTHWEST REGIONAL WATER DISTRICT
SCIOTO COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2018 and 2017**

NOTE C – CAPITAL ASSETS (Continued)

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

	Ending Balance at 12/31/2016	Additions	Deletions	Ending Balance at 12/31/2017
Capital Assets, Not Being Depreciated				
Land	\$ 120,754	\$ -	\$ -	\$ 120,754
Construction in Progress	2,975	348,725	(2,975)	348,725
Total Capital Assets, Not Being Depreciated	123,729	348,725	(2,975)	469,479
Capital Assets, Being Depreciated				
Utility plant - lines	12,381,461	16,525	-	12,397,986
Utility plant - towers	1,649,945	-	-	1,649,945
Utility plant - meters	347,342	-	-	347,342
Utility plant - office and garage	260,119	8,314	-	268,433
Office equipment and furniture	132,857	-	-	132,857
Radio telemetry system	344,711	1,774	-	346,485
Trucks and equipment	1,104,031	136,204	(58,016)	1,182,219
Total Capital Assets, Being Depreciated	16,220,466	162,817	(58,016)	16,325,267
Less Accumulated Depreciation:				
Utility plant - lines	(5,587,513)	(247,960)	-	(5,835,473)
Utility plant - towers	(569,471)	(32,999)	-	(602,470)
Utility plant - meters	(252,010)	(8,849)	-	(260,859)
Utility plant - office and garage	(182,616)	(11,228)	-	(193,844)
Office equipment and furniture	(110,440)	(7,929)	-	(118,369)
Radio telemetry system	(314,047)	(5,118)	-	(319,165)
Trucks and equipment	(912,946)	(91,276)	58,016	(946,206)
Total Accumulated Depreciation	(7,929,043)	(405,359)	58,016	(8,276,386)
Total Capital Assets Being Depreciated, Net	8,291,423	(242,542)	-	8,048,881
Total Capital Assets	\$ 8,415,152	\$ 106,183	\$ (2,975)	\$ 8,518,360

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**NORTHWEST REGIONAL WATER DISTRICT
SCIOTO COUNTY**
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2018 and 2017

NOTE D – LONG-TERM DEBT

The District has the following notes payable at December 31, 2018 and 2017:

	2018	2017
0% note payable OPWC, payable in semi-annual installments of \$2,171, due in 2032, secured by property and equipment	\$ 54,278	\$ 58,620
0% note payable OPWC, payable in semi-annual installments of \$10,707, due in 2022, secured by property and equipment	64,240	85,653
6.39% note payable OWDA, payable in semi-annual installments of \$19,309 due in 2026, secured by property and equipment	215,247	238,968
2.86% note payable OWDA, payable in semi-annual installments of \$5,683 due in 2028, secured by property and equipment	89,630	98,248
4.14% note payable OWDA, payable in semi-annual installments of \$27,096 due in 2029, secured by property and equipment	457,697	491,875
0% note payable OPWC, payable in semi-annual installments of \$922 due in 2023, secured by property and equipment	8,296	10,139
0% note payable OPWC, payable in semi-annual installments of \$705 due in 2025, secured by property and equipment	9,864	11,273
0% note payable OPWC, payable in semi-annual installments of \$368 due in 2025, secured by property and equipment	4,415	5,151
	903,667	999,927
Less current maturities	(99,479)	(96,261)
Total long-term debt	\$ 804,188	\$ 903,666

**NORTHWEST REGIONAL WATER DISTRICT
SCIOTO COUNTY**
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2018 and 2017

NOTE D – LONG-TERM DEBT (Continued)

The annual requirements to amortize all bonded debt outstanding as of December 31, 2018 are as follows:

	Principal	Interest	Total
2019	\$99,479	\$34,441	\$133,920
2020	102,863	31,057	133,920
2021	106,424	27,496	133,920
2022	88,758	23,749	112,507
2023	91,778	19,806	111,584
2024-2028	376,963	41,962	418,925
2029-2031	37,402	3,255	40,657
Total	\$903,667	\$181,766	\$1,085,433

	Balance 12/31/2017*	Additions	Reductions	Balance 12/31/2018	Amount Due Within One Year
O.W.D.A.	\$ 829,091	\$ -	\$ 66,517	\$ 762,574	\$ 69,735
O.P.W.C	170,836	-	29,743	141,093	29,744
Net Pension Liabilities	998,484	-	289,384	709,100	-
Net OPEB Liabilities	415,124	43,137	-	458,261	-
	\$ 2,413,535	\$ 43,137	\$ 385,644	\$ 2,071,028	\$ 99,479

	Balance 12/31/2016	Additions	Reductions	Balance 12/31/2017	Amount Due Within One Year
O.W.D.A.	\$ 976,019	\$ -	\$ 146,928	\$ 829,091	\$ 66,517
O.P.W.C	203,425	-	32,589	170,836	29,744
Net Pension Liabilities	697,975	300,509	-	998,484	-
	\$ 1,877,419	\$ 300,509	\$ 179,517	\$ 1,998,411	\$ 96,261

* - As restated – See Note K.

On February 18, 2016, the District was notified by the Ohio Water Development Authority (OWDA) that they have implemented an interest rate buy-down program to assist communities and local governments with outstanding OWDA loans. Any District OWDA loans with interest rates exceeding 4.00% will see a reduction of the interest ratio to 4.00%. The District will receive an estimated \$51,253 of additional interest subsidies through 2029.

NOTE E – DEPOSITS AND INVESTMENTS

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

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

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

NORTHWEST REGIONAL WATER DISTRICT
SCIOTO COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2018 and 2017

NOTE E – DEPOSITS AND INVESTMENTS (Continued)

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

1. United States Treasury bills, bonds, notes, 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 other obligations or securities issued by any federal government agency or instrumentality, including, but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, and Government National Mortgage 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 the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio, and with certain limitations, bonds and other obligations of political subdivisions of the State of Ohio;
5. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;
6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of 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 Treasurer's investment pool (STAROhio);
8. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred eighty days in an amount not to exceed 40 percent of the interim monies available for investment at any one time if training requirements have been met.

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.

**NORTHWEST REGIONAL WATER DISTRICT
SCIOTO COUNTY**
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2018 and 2017

NOTE E – DEPOSITS AND INVESTMENTS (Continued)

Cash on Hand At year end, the District has \$450 in undeposited cash on hand which is included on the statement of net position of the District as part of “cash and cash equivalents”.

Deposits Custodial credit risk is the risk that in the event of a bank failure, the government’s deposits may not be returned. Custodial credit risk is the risk that in the event of bank failure, the District will not be able to recover deposits or collateral securities that are in the possession of an outside party. Although all statutory requirements for the deposit of money had been followed, noncompliance with Federal requirements could potentially subject the District to a successful claim by the Federal Deposit Insurance Corporation (FDIC).

Eligible securities pledged to the District and deposited with a qualified trustee by the financial institution as security for repayment whose market value at all times shall be at least 105 percent of the deposits being secured; or participation in the Ohio Pooled Collateral System (OPCS), a collateral pool of eligible securities deposited with a qualified trustee and pledged to the Treasurer of State to secure the repayment of all public monies deposited in the financial institution. OPCS requires the total market value of the securities pledged to be 102 percent of the deposits being secured or a rate set by the Treasurer of State. SWLCWSD’s policy is to deposit money with financial institutions that are able to abide by the laws governing insurance and collateralization of public funds.

As of December 31, 2018, the District’s bank balance of \$2,234,057 is either covered by FDIC or collateralized by the financial institutions public entity deposit pools in the manner described above. As of December 31, 2017, the District’s bank balance of \$1,921,330 is either covered by FDIC or collateralized by the financial institutions public entity deposit pools in the manner described above.

Investments are reported at fair value. As of December 31, 2018 and 2017, the District had the following investments:

	<u>Fair Value 2018</u>	<u>Maturity</u>
Negotiable Certificates of Deposit	\$144,855	\$144,855 < 1 year
STAR Ohio	<u>92,346</u>	\$92,346 < 1 year
Total	<u><u>\$237,201</u></u>	
	<u>Fair Value 2017</u>	<u>Maturity</u>
Negotiable Certificates of Deposit	\$263,207	\$193,281 < 1 year \$69,926 3-5 years
Morgan Stanley-Mutual Fund	9	\$9 < 1 year
STAR Ohio	<u>90,564</u>	\$90,564 < 1 year
Total	<u><u>\$353,780</u></u>	

Interest Rate Risk: Interest Rate Risk is the risk that changes in the interest rate will adversely affect the fair value on an investment. The District does not have an investment policy.

Credit Risk STAR Ohio carries a rating of AAA by Standard and Poor’s. Ohio law requires that STAR Ohio maintain the highest rating provided by at least one nationally recognized standard rating service.

Morgan Stanley Smith Barney invests in various funds such as mutual funds, money funds and certificate of deposits. Mutual funds and money funds are not insured or guaranteed by the federal government. The negotiable certificates of deposit are insured up to \$250,000 per account owner per institution.

**NORTHWEST REGIONAL WATER DISTRICT
SCIOTO COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2018 and 2017**

NOTE E – DEPOSITS AND INVESTMENTS (Continued)

Concentration of Credit Risk is defined by the Governmental Accounting Standards Board as having five percent or more invested in the securities of a single issuer. The following is the District’s allocation as of December 31, 2018 and 2017:

<u>Year</u>	<u>Investment Type</u>	<u>Percentage of Investments</u>
2018	Negotiable CDs	61%
2018	STAR Ohio	26%
2017	Negotiable CDs	74%
2017	STAR Ohio	26%
2017	Mutual Funds	<1%

NOTE F – CONTINGENT LIABILITIES

There were no contingent liabilities as of December 31, 2018 or December 31, 2017.

NOTE G – RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. For fiscal year 2018, the District contracted with Kinder’s Insurance Agency for real property, building contents, and vehicle insurance coverage.

The District has not had any significant reductions in insurance coverage from coverage in prior years by major category of risk. Settled claims resulting from the above risks have not exceeded commercial insurance coverage in any of the past three years.

NOTE H - ACCOUNTS RECEIVABLE

Accounts receivables are presented at net realizable value and consist of amounts due from customers for sewer fees for services rendered and contracts amounts billed. Uncollectible accounts receivable are charged to operations during the period they are determined to be uncollectible. Uncollectible accounts receivable are charged to operations during the period determined to be uncollectible. Uncollectible water account balances are certified to the County Auditor after administrative collection efforts have been exhausted. The balance at year end, including billed and unbilled accounts, are due as follows:

2018 – Accounts receivable, net allowance for doubtful accounts - \$467,656

2017 – Accounts receivable, net allowance for doubtful accounts - \$504,559

**NORTHWEST REGIONAL WATER DISTRICT
SCIOTO COUNTY**
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2018 and 2017

NOTE I - DEFINED BENEFIT RETIREMENT PLAN

Net Pension Liability

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 net pension liability represents the District's proportionate share of the pension plan's collective actuarial present value of projected benefit payments attributable to past periods of service, net of 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.

Plan Description – Ohio Public Employees Retirement System (OPERS)

The District participates in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans. The traditional plan is a cost-sharing, multiple-employer defined benefit pension plan. The member-directed plan is a defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20 percent per year). Under the member-directed plan, members accumulate retirement assets equal to the value of the member and vested employer contributions plus any investment earnings. The combined plan is a cost-sharing, multiple-employer defined benefit pension plan that has elements of both a defined benefit and a defined contribution plan. Under the combined plan, OPERS invests employer contributions to provide a formula retirement benefit similar in nature to, but less than, the Traditional Pension Plan benefit. Member contributions, whose investment is self-directed by the member, accumulate retirement assets in a manner similar to the member-directed plan.

OPERS provides retirement, disability, survivor and death benefits and annual cost-of-living adjustments to members of the traditional and combined plans. District to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report that may be obtained by visiting <https://www.opers.org/investmenst/cafr.shtml>, by writing to OPERS, 277 East Town Street, Columbus, OH 43215-4642, or by calling (614) 222-5601 or 800-222-7377. Senate Bill (SB) 343 was enacted into law with an effective date of January 7, 2013. In the legislation, members were categorized into three groups with varying provisions of the law applicable to each group. The following table provides age and service requirements for retirement and the retirement formula applied to final average salary (FAS) for the three-member groups under the traditional plan as per the reduced benefits adopted by SB 343:

**NORTHWEST REGIONAL WATER DISTRICT
SCIOTO COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2018 and 2017**

NOTE I – DEFINED BENEFIT RETIREMENT PLAN - Continued

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

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

Group A	Group B	Group C
Eligible to retire prior to January 7, 2013 or five years after January 7, 2013	20 years of service credit prior to 01/01/13 or eligible to retire ten years after 01/01/13	Members not in other Groups and members hired on or after 01/01/13
State and Local	State and Local	State and Local
Age and Service Requirements: Age 60 with 60 months of service credit or Age 55 with 25 years of service credit	Age and Service Requirements: Age 60 with 60 months of service credit or Age 55 with 25 years of service credit	Age and Service Requirements: Age 57 with 25 years of service credit or Age 62 with 5 years of service credit
Formula: 2.2% of FAS multiplied by years of service for the first 30 years and 2.5% for service years in excess of 30	Formula: 2.2% of FAS multiplied by years of service for the first 30 years and 2.5% for service years in excess of 30	Formula: 2.2% of FAS multiplied by years of service for the first 35 years and 2.5% for service years in excess of 35

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

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

**NORTHWEST REGIONAL WATER DISTRICT
SCIOTO COUNTY**
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2018 and 2017

NOTE I – DEFINED BENEFIT RETIREMENT PLAN - Continued

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

Funding Policy - The Ohio Revised Code (ORC) provides statutory authority for member and employer contributions. For the fiscal year ended December 31, 2018, the contribution rate for members in the state and local classification remained 10 percent. The District's contribution rate for members in state and local classifications for the fiscal year ended December 31, 2018 was 14.0 percent. State statute sets a maximum contribution rate for the District of 14.0 percent.

The District's contractually required contribution to OPERS was \$89,992 for fiscal year 2018 and \$77,660 for 2017 respectively. Of this amount \$6,456 and \$0 were reported as a payroll related liability for 2018 and 2017 respectively.

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

The net pension liability reported as of December 31, 2018 was measured as of December 31, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on the District's share of contributions to the pension plan relative to the projected contributions of all participating entities. Following is information related to the proportionate share:

	2018	2017
	OPERS	OPERS
Proportion of the Net Pension Liability/Asset - Prior Year	0.004397%	0.004196%
Proportion of the Net Pension Liability/Asset - Current Year	0.004520%	0.004397%
Change in Proportionate Share	0.000123%	0.000201%
Proportionate Share of the Net Pension Liability	\$ 709,100	\$ 998,484
Pension Expense	\$ 172,354	\$ 253,689

**NORTHWEST REGIONAL WATER DISTRICT
SCIOTO COUNTY**
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2018 and 2017

NOTE I – DEFINED BENEFIT RETIREMENT PLAN -Continued

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

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

	2018	2017
	OPERS	OPERS
Deferred Outflows of Resources:		
Differences between expected and actual economic experience	\$ 724	\$ 1,353
Differences between projected and actual investment earnings	-	148,697
Changes of assumptions	84,742	158,372
Changes in proportion	22,654	23,508
Contributions subsequent to the measurement date	89,992	77,660
Total	\$ 198,112	\$ 409,590
	OPERS	OPERS
Deferred Inflows of Resources:		
Differences between expected and actual economic experience	\$ 13,975	\$ 5,942
Differences between projected and actual investment earnings	152,235	-
Total	\$ 166,210	\$ 5,942

\$89,992 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, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

	OPERS
Fiscal Year Ending December 31:	
2019	\$ 79,178
2020	(7,676)
2021	(67,035)
2022	(62,557)
	\$ (58,090)

Actuarial Assumptions - OPERS

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

**NORTHWEST REGIONAL WATER DISTRICT
SCIOTO COUNTY**
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2018 and 2017

NOTE I – DEFINED BENEFIT RETIREMENT PLAN -Continued

Actuarial Assumptions - OPERS – Continued

Measurement and Valuation Date	December 31, 2017
Experience Study	5-Year Period Ended December 31, 2015
Actuarial Cost Method	Individual Entry Age
Wage Inflation	3.25 percent
Projected Salary increase	3.25 -10.75% (Traditional; 3.25% - 8.25% Combined)
Investment Rate of Return	7.50 percent
Cost-of-Living Adjustments	Pre-1/7/2013 Retirees: 3 percent simple Post-1/7/2013 Retirees: 3 percent simple through 2018, then 2.15% simple

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

Discount Rate

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

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Weighted Average Long Term Expected Real Rate of Return (Arithmetic)</u>
Fixed Income	23.00 %	2.20 %
Domestic Equities	19.00	6.37
Real Estate	10.00	5.26
Private Equity	10.00	8.97
International Equities	20.00	7.88
Other Investments	18.00	5.26
Total	<u>100.00 %</u>	

**NORTHWEST REGIONAL WATER DISTRICT
SCIOTO COUNTY**
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2018 and 2017

NOTE I – DEFINED BENEFIT RETIREMENT PLAN -Continued

Actuarial Assumptions – OPERS – Continued

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

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

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

Net pension liability is sensitive to changes in the discount rate, and to illustrate the potential impact the following table presents the net pension liability calculated using the discount rate of 7.5 percent, as well as what each plan's net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.5 percent), or one percentage point higher (8.5 percent) than the current rate.

	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
District's proportionate share of the net pension liability	\$1,259,182	\$709,100	\$250,498

Average Remaining Service Life

GASB 68 requires that changes arising from differences between expected and actual experience or from changes in actuarial assumptions be recognized in pension expense over the average remaining service life of all employees provided with benefits through the pension plan (active and inactive). This is to consider these differences on a pooled basis, rather than an individual basis, to reflect the expected remaining service life of the entire pool of employees with the understanding that inactive employees have no remaining service period. As of December 31, 2017, the average of the expected remaining service lives of all employees calculated by external actuaries for the Traditional Pension Plan was 2.9546 years, for the Combined Plan was 9.3216 years, and for the Member-Directed Plan was 10.1908 years.

**NORTHWEST REGIONAL WATER DISTRICT
SCIOTO COUNTY**
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2018 and 2017

NOTE J - DEFINED BENEFIT OPEB PLANS

Post-GASB 75 Implementation

Net Other Postemployment Benefits (OPEB) Liability

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

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

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

GASB 75 assumes the liability is solely the obligation of the employer, because they benefit from employee services. OPEB contributions come from these employers and health care plan enrollees which pay a portion of the health care costs in the form of a monthly premium. The Ohio revised Code permits, but does not require the retirement systems to provide healthcare to eligible benefit recipients. Any change to benefits or funding could significantly affect the net OPEB liability. Resulting adjustments to the net OPEB liability would be effective when the changes are legally enforceable. The retirement systems may allocate a portion of the employer contributions to provide for these OPEB benefits. The proportionate share of each plan’s unfunded benefits is presented as a long-term net OPEB liability on the accrual basis of accounting.

Ohio Public Employees Retirement System

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

OPERS maintains a cost-sharing multiple-employer defined benefit post-employment health care plan, which includes a medical plan, prescription drug program and Medicare Part B premium reimbursement, to qualifying benefit recipients of both the Traditional Pension and the Combined plans. Members of the Member-Directed Plan do not qualify for ancillary benefits, including post-employment health care coverage. In order to qualify for post-employment health care coverage, age-and-service retirees under the Traditional Pension and Combined plans must have 10 or more years of qualifying Ohio service credit. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available. The health care coverage provided by OPERS meets the definition of an Other Post Employment Benefit (OPEB) as described in GASB Statement 45. OPERS’ eligibility requirements for post-employment health care coverage changed for those retiring on and after January 1, 2015. Please see the Plan Statement in the OPERS 2017 CAFR for details.

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

**NORTHWEST REGIONAL WATER DISTRICT
SCIOTO COUNTY**
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2018 and 2017

NOTE J - DEFINED BENEFIT OPEB PLANS - Continued

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

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

Employer contribution rates are expressed as a percentage of the earnable salary of active members. In 2018, state and local employers contributed at a rate of 14.00% of earnable salary and public safety and law enforcement employers contributed at 18.10%. These are the maximum employer contribution rates permitted by the Ohio Revised Code. Active member contributions do not fund the OPEB Plan.

OPERS’ Post Employment Health Care plan was established under, and is administrated in accordance with, Internal Revenue Code 401(h). Each year, the OPERS Board of Trustees determines the portion of the employer contribution rate that will be set aside for funding of postemployment health care.

The portion of employer contributions allocated to health care for members in the Traditional Plan was 1.0 percent during calendar year 2017. Effective, January 2018, the portion of employer contributions allocated to health care was 0.0% for both plans, as recommended by OPERS’ actuary. The OPERS Board of Trustees is also authorized to establish rules for the retiree or their surviving beneficiaries to pay a portion of the health care benefits provided. Payment amounts vary depending on the number of covered dependents and the coverage selected. The District’s contributions for health care for the fiscal years ended December 31, 2018, 2017 and 2016 were approximately \$0, \$5,971 and \$16,758 respectively. The full amount has been contributed for fiscal years 2018, 2017 and 2016.

Net Other Post Employment Benefit (OPEB) Liability, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB Liability

The net OPEB liability reported as of December 31, 2018 was measured as of December 31, 2017 for OPERS and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. The District’s proportion of the net OPEB liability was based on the District’s share of contributions to the respective retirement system relative to the contributions of all participating entities. Following is information related to the proportionate share and OPEB expense:

	2018 OPERS
Proportion of the Net OPEB Liability/Asset - Prior Year	0.411000%
Proportion of the Net OPEB Liability/Asset - Current Year	0.422000%
Change in Proportionate Share	0.011000%
Proportionate Share of the Net OPEB Liability	\$ 458,261
OPEB Expense	\$ 42,006

**NORTHWEST REGIONAL WATER DISTRICT
SCIOTO COUNTY**
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2018 and 2017

NOTE J - DEFINED BENEFIT OPEB PLANS – Continued

Net Other Post Employment Benefit (OPEB) Liability, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB Liability - Continued

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

	2018 OPERS
Deferred Outflows of Resources:	
Differences between expected and actual economic experience	\$ 357
Changes of assumptions	33,366
Changes in proportion	7,516
Total	\$ 41,239
Deferred Inflows of Resources:	
Differences between expected and actual investment earnings	\$ 34,137
Total	\$ 34,137

There were no deferred outflows of resources related to OPEB resulting from District contributions subsequent to the measurement date since none were made subsequent to the measurement date.

Amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

	<u>OPERS</u>
Fiscal Year Ending December 31:	
2019	\$ 11,184
2020	11,184
2021	(6,731)
2022	(8,535)
	\$ 7,102

**NORTHWEST REGIONAL WATER DISTRICT
SCIOTO COUNTY**
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2018 and 2017

NOTE J - DEFINED BENEFIT OPEB PLANS - Continued

Actuarial Assumptions - PERS

The net OPEB liability and total OPEB liability were determined by an actuarial valuation as of December 31, 2016, rolled forward to the measurement date of December 31, 2017, by incorporating the expected value of health care cost accruals, the actual health care payments, and interest accruals during the year. Refer to the following table for the balances as of December 31, 2017. Additional information on the changes in net OPEB liability and contribution information can be found in the Required Supplementary Information of the Financial Section in OPERS 2017 CAFR.

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

Projections of health care costs for financial reporting purposes are based on the substantive plan and include the types of coverage provided at the time of each valuation and the historical pattern of sharing of costs between the System and plan members. The total OPEB liability was determined by an actuarial valuation as of December 31, 2016, rolled forward to the measurement date of December 31, 2017.

The actuarial valuation used the following actuarial assumptions applied to all prior periods included in the measurement in accordance with the requirements of GASB 74:

Actuarial Valuation Date	December 31, 2016
Rolled-Forward Measurement Dated	December 31, 2017
Experience Study	5-Year Period Ended December 31, 2015
Actuarial Assumptions	
Single Discount Rate	3.85%
Investment Rate of Return	6.50%
Municipal Bond Rate	3.31%
Wage Inflation	3.25%
Projected Salary Increases	3.25% - 10.75%
	(includes wage inflation at 3.25%)
Health Care Cost Trend Rate	7.5% initial, 3.25% ultimate in 2028

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

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

**NORTHWEST REGIONAL WATER DISTRICT
SCIOTO COUNTY**
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2018 and 2017

NOTE J - DEFINED BENEFIT OPEB PLANS - Continued

Actuarial Assumptions – PERS - Continued

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Weighted Average Long-Term Expected Real Rate of Return (Arithmetic)</u>
Fixed Income	34.00 %	1.88 %
Domestic Equities	21.00	6.37
REITs	6.00	5.91
International Equities	22.00	7.88
Other Investments	17.00	5.39
Total	<u>100.00 %</u>	

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

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

Discount Rate

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

**NORTHWEST REGIONAL WATER DISTRICT
SCIOTO COUNTY**
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2018 and 2017

NOTE J - DEFINED BENEFIT OPEB PLANS - Continued

Actuarial Assumptions – PERS - Continued

Sensitivity of the District’s Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate and Changes in the Health Care Cost Trend Rates

The net OPEB liability is sensitive to changes in the discount rate and the health care cost trend rate. The following table presents the OPEB liability calculated using the single discount rate of 3.85%, and the expected net OPEB liability if it were calculated using a discount rate that is 1.0% lower or 1.0% higher than the current rate.

	<u>1% Decrease</u>	<u>Current Discount Rate</u>	<u>1% Increase</u>
	(2.85%)	(3.85%)	(4.85%)
District's proportionate share of the net OPEB liability	\$608,619	\$458,261	\$336,461

Changes in the health care cost trend rate may also have a significant impact on the net OPEB liability. The following table presents the net OPEB liability calculated using the assumed trend rates, and the expected net OPEB liability if it were calculated using a health care cost trend rate that is 1.0% lower or 1.0% higher than the current rate.

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

	<u>1% Decrease</u>	<u>Current Health Care Cost Trend Rate Assumption</u>	<u>1% Increase</u>
District's proportionate share of the net OPEB liability	\$438,458	\$458,261	\$478,717

NORTHWEST REGIONAL WATER DISTRICT
SCIOTO COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2018 and 2017

NOTE J - DEFINED BENEFIT OPEB PLANS - Continued

Postemployment Benefits Pre-GASB 75 Implementation

The Ohio Public Employees Retirement System (OPERS) administers three separate pension plans: the traditional pension plan, a cost-sharing, multiple-employer defined benefit pension plan; the member-directed plan, a defined contribution plan; and the combined plan, a cost-sharing, multiple-employer defined benefit pension plan that has elements of both a defined benefit and defined contribution plan. OPERS maintains a cost-sharing, multiple-employer defined benefit post-employment health care trust, which funds multiple health care plans including medical coverage, prescription drug coverage and deposits to a Health Reimbursement Arrangement to qualifying benefit recipients of both the Traditional Pension and the Combined plans. This trust is also used to fund health care for Member-Directed Plan participants, in the form of a Retiree Medical Account (RMA). At retirement or refund, Member-Directed Plan participants may be eligible for reimbursement of qualified medical expenses from their vested RMA balance.

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

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

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

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

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

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

Substantially all of the District’s contribution allocated to fund post-employment health care benefits relates to the cost-sharing, multiple employer trusts. The corresponding contribution for the years ended December 31, 2017, 2016, and 2015 was \$5,971, \$16,758, and \$14,327, respectively. The full amount has been contributed for 2017, 2016 and 2015.

NORTHWEST REGIONAL WATER DISTRICT
SCIOTO COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2018 and 2017

NOTE K – CHANGES IN ACCOUNTING PRINCIPLES

For the fiscal year ended December 31, 2018, the District has implemented Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, and GASB Statement No. 85, *Omnibus 2017*.

GASB Statement No. 75 (GASB 75) establishes accounting and financial reporting requirements for governmental employers who have other post-employment benefits (OPEB) plans. The implementation of GASB Statement No. 75 had the following effect on the financial statements of the District and certain additional disclosures have been made in the notes to the basic financial statements.

Net position, January 1, 2017 - As previously stated	\$9,498,376
District's Share of Beginning Plan Net OPEB Liability	(415,124)
District's Share of 2017 Employer Contributions	<u>5,971</u>
Net position, January 1, 2017 - As restated	<u>\$9,089,223</u>

GASB Statement No. 85 addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits [OPEB]). GASB Statement No. 85 did not have an effect on the financial statements of the District.

REQUIRED SUPPLEMENTARY INFORMATION

Northwest Regional Water District
Required Supplementary Information
Schedule of the District's Proportionate Share of the Net Pension Liability
Ohio Public Employees Retirement System
Last Two Years (1)

	<u>2017</u>	<u>2016</u>
Total plan pension liability	\$ 102,273,912,351	\$99,817,932,954
Plan net position	<u>86,585,851,024</u>	<u>77,109,633,485</u>
Net pension liability	\$ 15,688,061,327	\$22,708,299,469
District's proportion of the net pension liability	0.004520%	0.004397%
District's proportionate share of the net pension liability	\$ 709,100	\$ 998,484
District's covered-employee payroll	\$ 597,385	\$ 663,142
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	118.70%	150.57%
Plan fiduciary net position as a percentage of the total pension liability	84.66%	77.25%

(1) Information prior to 2016 is not available.
Amounts presented as of the District's measurement date which is the prior fiscal year.

Northwest Regional Water District
Required Supplementary Information
Schedule of the District's Pension Contributions
Ohio Public Employees Retirement System
Last Three Years (1)

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Contractually required contribution	\$ 89,992	\$ 77,660	\$ 79,577
Contributions in relation to the contractually required contribution	<u>(89,992)</u>	<u>(77,660)</u>	<u>(79,577)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered-employee payroll	\$ 642,800	\$ 597,385	\$ 663,142
Contributions as a percentage of covered employee payroll	14.00%	13.00%	12.00%

(1) Information prior to 2016 is not available.

Notes to Required Supplementary Information - Pension

Changes to Benefit Terms: There were no changes in benefit terms affecting the OPERS plan for the plan year ended December 31, 2017.

Changes of Assumptions (OPERS): During the plan year ended December 31, 2016, there were changes to several assumptions for OPERS. The wage inflation dropped from 3.75 percent to 3.25 percent. The projected salary increase range changed from 4.25-10.05 percent to 3.25-10.75 percent. The mortality tables used changed from RP-2000 to RP-2014.

Northwest Regional Water District
Required Supplementary Information
Schedule of the District's Proportionate Share of the Net OPEB Liability
Ohio Public Employees Retirement System
Last Two Years (1)

	<u>2017</u>	<u>2016</u>
Total plan OPEB liability	\$ 23,678,097,060	\$ 21,980,827,536
Plan net position	<u>12,818,833,665</u>	<u>11,880,487,863</u>
Net OPEB liability	10,859,263,395	10,100,339,673
District's proportion of the net OPEB liability	0.00422000%	0.00411000%
District's proportionate share of the net OPEB liability	\$ 458,261	\$ 415,124
District's covered-employee payroll	\$ 597,385	\$ 663,142
District's proportionate share of the net OPEB liability as a percentage of its covered-employee payroll	76.71%	62.60%
Plan fiduciary net position as a percentage of the total OPEB liability	54.14%	54.05%

(1) Information prior to 2016 is not available.
Amounts presented as of the District's measurement date which is the prior fiscal year.

Northwest Regional Water District
Required Supplementary Information
Schedule of the District's OPEB Contributions
Ohio Public Employees Retirement System
Last Three Years (1)

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Contractually required contribution	\$ -	\$ 5,971	\$ 16,758
Contributions in relation to the contractually required contribution	<u>-</u>	<u>(5,971)</u>	<u>(16,758)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District covered-employee payroll	\$ 642,800	\$ 597,385	\$ 663,142
Contributions as a percentage of covered-employee payroll	0.00%	1.00%	2.50%

(1) Information prior to 2016 is not available.

Notes to Required Supplementary Information - OPEB

Changes to Benefit Terms: There were no changes in benefit terms affecting the OPERS plan for the plan year ended December 31, 2017.

Changes of Assumptions (OPERS): There were no changes in assumptions affecting the OPERS plan for the plan year ended December 31, 2017.

**NORTHWEST REGIONAL WATER DISTRICT
SCIOTO COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE YEARS ENDED DECEMBER 31, 2017 and 2016**

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

FINANCIAL HIGHLIGHTS

The total assets and deferred outflows of resources exceeded total liabilities and deferred inflows of resources by December 31, 2017 by \$9.49 million and on December 31, 2016 by \$9.22 million. The District's net position increased by \$275 thousand (2.9%) in 2017 and by \$174 thousand (1.9%) in 2016.

The District's Operating Revenues increased in 2017 by \$135 thousand (5.2%) and in 2016 they decreased by \$25 thousand (less than 1%). Operating and Maintenance Expenses (excluding depreciation expense) increased \$256 thousand (12.9%) in 2017 and in 2016 (excluding depreciation expense) increased \$102 thousand (less than 5.3%). Depreciation expense increased \$25 thousand (6.5%) in 2017 and increased in 2016 by \$26 thousand (7.4%).

OVERVIEW OF BASIC FINANCIAL STATEMENTS

The District is a single enterprise fund using proprietary fund accounting, similar to private sector business. The Basic Financial Statements are presented using the accrual basis of accounting.

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

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

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

**NORTHWEST REGIONAL WATER DISTRICT
SCIOTO COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE YEARS ENDED DECEMBER 31, 2017 and 2016**

STATEMENTS OF NET POSITION

Table 1 summarizes the Statements of Net Position of the District. Capital Assets are reported less accumulated depreciation. "Invested in Capital Assets, Net of Related Debt", are Capital Assets less accumulated depreciation and outstanding debt that was used to acquire those assets.

	Table 1				
	2017	2016	Change	2015	Change
Current and Other Assets	\$ 2,760,439	\$ 2,582,897	\$ 177,542	\$ 2,461,783	\$ 121,114
Capital Assets, Net	8,518,360	8,415,152	103,208	8,531,969	(116,817)
Total Assets	<u>11,278,799</u>	<u>10,998,049</u>	<u>280,750</u>	<u>10,993,752</u>	<u>4,297</u>
Deferred Outflows of Resources - Pension	<u>409,590</u>	<u>293,211</u>	<u>116,379</u>	<u>98,581</u>	<u>194,630</u>
Long Term Liabilities:					
Other Long-Term Liabilities	903,666	1,002,773	(99,107)	1,179,440	(176,667)
Net Pension Liability	998,484	697,975	300,509	477,259	220,716
Other Current Liabilities	<u>281,921</u>	<u>353,626</u>	<u>(71,705)</u>	<u>378,461</u>	<u>(24,835)</u>
Total Liabilities	<u>2,184,071</u>	<u>2,054,374</u>	<u>129,697</u>	<u>2,035,160</u>	<u>19,214</u>
Deferred Outflows of Resources - Pension	<u>5,942</u>	<u>14,043</u>	<u>(8,101)</u>	<u>8,384</u>	<u>5,659</u>
Net Position					
Invested in Capital Assets, Net of Related Debt	7,518,433	7,235,708	282,725	7,139,704	96,004
Unrestricted	<u>1,979,943</u>	<u>1,987,135</u>	<u>-7,192</u>	<u>1,909,085</u>	<u>78,050</u>
Total Net Position	<u>\$ 9,498,376</u>	<u>\$ 9,222,843</u>	<u>\$ 275,533</u>	<u>\$ 9,048,789</u>	<u>\$ 174,054</u>

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

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

**NORTHWEST REGIONAL WATER DISTRICT
SCIOTO COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE YEARS ENDED DECEMBER 31, 2017 and 2016**

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

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

GASB notes that pension obligations, whether funded or unfunded, are part of the "employment exchange" – that is, the employee is trading his or her labor in exchange for wages, benefits, and the promise of a future pension. GASB noted that the unfunded portion of this pension promise is a present obligation of the government, part of a bargained-for benefit to the employee, and should accordingly be reported by the government as a liability since they received the benefit of the exchange. However, the District is not responsible for certain key factors affecting the balance of this liability. In Ohio, the employee shares the obligation of funding pension benefits with the employer. Both employer and employee contribution rates are capped by State statute. A change in these caps requires action of both Houses of the General Assembly and approval of the Governor. Benefit provisions are also determined by State statute. The employee enters the employment exchange with the knowledge that the employer's promise is limited not by contract but by law. The employer enters the exchange also knowing that there is a specific, legal limit to its contribution to the pension system. In Ohio, there is no legal means to enforce the unfunded liability of the pension system as against the public employer. State law operates to mitigate/lessen the moral obligation of the public employer to the employee, because all parties enter the employment exchange with notice as to the law. The pension system is responsible for the administration of the plan. Most long-term liabilities have set repayment schedules or, in the case of compensated absences (i.e. sick and vacation leave), are satisfied through paid time-off or termination payments. There is no repayment schedule for the net pension liability. As explained above, changes in pension benefits, contribution rates, and return on investments affect the balance of the net pension liability, but are outside the control of the local government. In the event that contributions, investment returns, and other changes are insufficient to keep up with required pension payments, State statute does not assign/identify the responsible party for the unfunded portion. Due to the unique nature of how the net pension liability is satisfied, this liability is separately identified within the long-term liability section of the statement of net position.

In accordance with GASB 68, the District's statements prepared on an accrual basis of accounting include an annual pension expense for their proportionate share of each plan's change in net pension liability not accounted for as deferred inflows/outflows. As a result of implementing GASB 68 and GASB 71, the District is reporting a net pension liability and deferred inflows/outflows of resources related to pension on the accrual basis of accounting.

The District's Net Position increased by \$275 thousand (2.9%) in 2017 and \$174 thousand (1.9%) in 2016. This increase is a result of excess revenues over expenses.

Unrestricted net position decreased by \$7 thousand in 2017 and increased \$78 thousand in 2016. Unrestricted net position may be used without constraints established by bond covenants or other legal requirements. Cash and Cash equivalents increased \$158 thousand in 2017 which is primarily due to revenues exceeding expenses. Cash and Cash equivalents increased by \$79 thousand in 2016.

**NORTHWEST REGIONAL WATER DISTRICT
SCIOTO COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE YEARS ENDED DECEMBER 31, 2017 and 2016**

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

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

	Table 2				
	<u>2017</u>	<u>2016</u>	<u>Change</u>	<u>2015</u>	<u>Change</u>
Operating Revenues	\$ 2,745,725	\$ 2,610,762	\$ 134,963	\$ 2,635,508	\$ (24,746)
Total Operating Revenues	2,745,725	2,610,762	134,963	2,635,508	(24,746)
Non-Operating Revenues	7,123	9,415	(2,292)	256,851	(247,436)
Total Revenues	2,752,848	2,620,177	132,671	2,892,359	(272,182)
Operating Expenses					
(Excluding Depreciation)	2,294,435	2,037,964	256,471	1,936,098	101,866
Depreciation Expense	405,359	380,405	24,954	354,126	26,279
Total Operating Expenses	2,699,794	2,418,369	281,425	2,290,224	128,145
Non-Operating Expenses	27,521	27,754	(233)	56,806	(29,052)
Total Expenses	2,727,315	2,446,123	281,192	2,347,030	99,093
Capital Contributions	250,000	-	250,000	-	-
Changes in Net Position	275,533	174,054	101,479	545,329	(371,275)
Net Position Beginning of Year	9,222,843	9,048,789	174,054	8,503,460	545,329
Net Position End of Year	<u>\$ 9,498,376</u>	<u>\$ 9,222,843</u>	<u>\$ 275,533</u>	<u>\$ 9,048,789</u>	<u>\$ 174,054</u>

Operating revenues increased \$135 thousand in 2017 due to an increase in charges for services and decreased by \$25 thousand in 2016 due to an increase in late fees and tap fees.

Operating expenses increased by about \$281 thousand in 2017 and about \$128 thousand in 2016 primarily due to an increase in salaries, wages and pension expense.

Non-Operating revenues decreased by \$2 thousand in 2017 due primarily to a decrease in interest income and decreased by \$247 thousand in 2016 due primarily to a decrease in governmental grants. Non-Operating expenses decreased by \$2 hundred in 2017 because of the decrease in long term debt and by \$29 thousand in 2016 due primarily to a decrease in long-term debt.

**NORTHWEST REGIONAL WATER DISTRICT
SCIOTO COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE YEARS ENDED DECEMBER 31, 2017 and 2016**

CAPITAL ASSETS

The District had \$16.8 million invested in total Capital Assets (before depreciation) at the end of 2017 and \$16.3 million at the end of 2016, an increase of \$451 thousand (2.7%) in 2017 and an increase of \$510 thousand (3.0%) in 2016. These increases are due to continued updates to the Water District's infrastructure.

Table 3

	<u>2017</u>	<u>2016</u>	<u>Change</u>	<u>2015</u>	<u>Change</u>
Non-Depreciable Capital Assets					
Land	\$120,754	\$120,754	\$0	\$120,754	\$0
Constructions in progress	<u>348,725</u>	<u>2,975</u>	<u>345,750</u>	<u>249,881</u>	<u>(246,906)</u>
Total Non-Depreciable Capital Assets	469,479	123,729	345,750	370,635	(246,906)
Depreciable Capital Assets					
Utility plant – lines	12,397,986	12,381,461	16,525	12,048,553	332,908
Utility plant - towers	1,649,945	1,649,945	0	1,576,155	73,790
Utility plant - meters	347,342	347,342	0	346,168	1,174
Utility plant - office and garage	268,433	260,119	8,314	256,613	3,506
Office equipment and furniture	132,857	132,857	0	132,857	0
Radio telemetry system	346,485	344,711	1,774	342,113	2,598
Trucks and equipment	<u>1,182,217</u>	<u>1,104,031</u>	<u>78,186</u>	<u>1,007,513</u>	<u>96,518</u>
Totals Before Accumulated Depreciation	16,325,265	16,220,466	104,799	15,709,972	510,494
Accumulated Depreciation	<u>(8,276,384)</u>	<u>(7,929,043)</u>	<u>(347,341)</u>	<u>(7,548,638)</u>	<u>(380,405)</u>
Net Depreciable Capital Assets	<u>8,048,881</u>	<u>8,291,423</u>	<u>(242,542)</u>	<u>8,161,334</u>	<u>130,089</u>
Total Capital Assets	<u><u>\$8,518,360</u></u>	<u><u>\$8,415,152</u></u>	<u><u>\$103,208</u></u>	<u><u>\$8,531,969</u></u>	<u><u>(\$116,817)</u></u>

For additional information regarding capital assets please see Note C to the Basic Financial Statements.

**NORTHWEST REGIONAL WATER DISTRICT
SCIOTO COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE YEARS ENDED DECEMBER 31, 2017 and 2016**

DEBT

At December 31, 2017 total debt outstanding of \$999,927 compared to \$1,179,444 at December 31, 2016. Ohio Publics Work Commission debt was issued in 2011 for water line extensions.

Table 4	2017	2016	Change	2015	Change
Ohio Public Works					
Commission (OPWC)	\$170,837	\$203,425	(\$32,588)	\$233,165	(\$29,740)
Ohio Water Development					
Authority (OWDA)	829,090	976,019	(146,929)	1,159,100	(183,081)
Total Long Term Debt	999,927	1,179,444	(179,517)	1,392,265	(212,821)
Less: Current Maturities	96,261	176,671	(80,410)	212,825	(36,154)
Net Total Long Term Debt	\$903,666	\$1,002,773	(\$99,107)	\$1,179,440	(\$176,667)

The District's debt is paid from operating revenues generated by the Water District. For additional information regarding debt please see Note D to the Basic Financial Statements.

CASH

Cash and cash equivalents were \$2,235,143 on December 31, 2017 and \$2,076,851 on December 31, 2016.

CONTACT INFORMATION

Questions regarding this report and requests for additional information should be forwarded to Patti Slye, Office Manager, Northwest Regional Water District, P.O. Box 158, McDermott, Ohio 45652 or (740) 259-2789.

NORTHWEST REGIONAL WATER DISTRICT

SCIOTO COUNTY

STATEMENT OF NET POSITIONS

AS OF DECEMBER 31, 2017 AND 2016

	2017	2016
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 2,235,143	\$ 2,076,851
Accounts receivable, net allowance for doubtful accounts	504,559	484,985
Prepaid expenses	20,737	21,061
TOTAL CURRENT ASSETS	2,760,439	2,582,897
NONCURRENT ASSETS		
Capital Assets:		
Non-depreciable capital assets	469,479	123,729
Depreciable capital assets, net	8,048,881	8,291,423
TOTAL NONCURRENT ASSETS	8,518,360	8,415,152
DEFERRED OUTFLOWS OF RESOURCES		
Pension	409,590	293,211
TOTAL ASSETS and DEFERRED OUTFLOWS OF RESOURCES	\$ 11,688,389	\$ 11,291,260
	2017	2016
LIABILITIES		
CURRENT LIABILITIES		
Notes payable - current portion	\$ 96,261	\$ 176,671
Accounts Payable	56,721	52,707
Accrued Expenses	128,939	124,248
TOTAL CURRENT LIABILITIES	281,921	353,626
LONG-TERM LIABILITIES		
Net Pension Liability	998,484	697,975
Notes payable - less current portion	903,666	1,002,773
TOTAL LONG-TERM LIABILITIES	1,902,150	1,700,748
TOTAL LIABILITIES	2,184,071	2,054,374
DEFERRED INFLOWS OF RESOURCES		
Pension	5,942	14,043
NET POSITION		
Net Investment in Capital Assets	7,518,433	7,235,708
Unrestricted	1,979,943	1,987,135
TOTAL NET POSITION	9,498,376	9,222,843
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES and NET POSITION	\$ 11,688,389	\$ 11,291,260

See accompanying notes to the basic financial statements.

NORTHWEST REGIONAL WATER DISTRICT

SCIOTO COUNTY

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

For the Years Ended December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
OPERATING REVENUES		
Water	\$ 2,605,273	\$ 2,467,037
Tap fees	27,581	23,625
Service charges	27,020	26,704
Late charges	85,851	80,126
Contract work	-	13,270
TOTAL OPERATING REVENUES	<u>2,745,725</u>	<u>2,610,762</u>
OPERATING EXPENSE		
Salaries, wages and benefits	942,297	837,897
Utilities	153,940	165,848
Depreciation expense	405,359	380,405
Purchased water	625,286	597,655
Telemetry	12,569	11,761
Maintenance	121,151	110,393
Truck and equipment expense	43,925	58,066
Billing expense	19,824	21,757
Pension expense	253,689	144,119
Payroll taxes	8,615	8,388
Insurance	26,303	39,285
Office supplies and postage	31,169	27,070
Legal and accounting fees	20,665	8,152
Travel and auto expense	1,433	1,347
Other expenses	33,569	6,226
TOTAL OPERATING EXPENSES	<u>2,699,794</u>	<u>2,418,369</u>
Operating Income	<u>\$ 45,931</u>	<u>\$ 192,393</u>
NONOPERATING REVENUES (EXPENSES)		
Interest Income	7,123	8,996
Intergovernmental	12,443	13,290
Other Income	-	419
Interest expense	<u>(39,964)</u>	<u>(41,044)</u>
Net other income (expense)	<u>(20,398)</u>	<u>(18,339)</u>
Increase (decrease) in net position before capital contributions	25,533	174,054
Capital contributions - intergovernmental	<u>250,000</u>	<u>-</u>
CHANGES IN NET POSITION	275,533	174,054
NET POSITION, BEGINNING OF YEAR	<u>9,222,843</u>	<u>9,048,789</u>
NET POSITION, END OF YEAR	<u>\$ 9,498,376</u>	<u>\$ 9,222,843</u>

See accompanying notes to the basic financial statements.

NORTHWEST REGIONAL WATER DISTRICT

SCIOTO COUNTY

STATEMENT OF CASH FLOWS

For the Years Ended December 31, 2017 and 2016

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers	\$ 2,726,151	\$ 2,555,775
Cash received from other income	-	13,270
Cash payments to suppliers for goods and services	(1,085,496)	(1,175,016)
Cash payments for employee services and benefits	(1,023,881)	(820,725)
Net cash provided by operating activities	616,774	573,304
 CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Principal payments - OPWC loans	(29,744)	(29,740)
Principal payments - OWDA loans	(149,773)	(183,081)
Interest payments - OWDA loans	(27,521)	(27,754)
Grants Received	250,000	-
Acquisition of Capital Assets	(508,567)	(263,588)
Net cash used for capital and related financing activities	(465,605)	(504,163)
 CASH FLOWS FROM INVESTING ACTIVITIES		
Interest on cash and investments	7,123	8,996
Other	-	419
	7,123	9,415
Net increase in cash and cash equivalents	158,292	78,556
Cash and cash equivalents, beginning of year	2,076,851	1,998,295
Cash and cash equivalents, end of year	\$ 2,235,143	\$ 2,076,851

NORTHWEST REGIONAL WATER DISTRICT

SCIOTO COUNTY

STATEMENT OF CASH FLOWS - Continued

For the Years Ended December 31, 2017 and 2016

	2017	2016
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 45,931	\$ 192,393
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	405,359	380,405
Changes in assets and liabilities:		
(Increase)/Decrease in accounts receivable	(19,574)	(41,717)
(Increase)/Decrease in prepaids	324	(841)
(Increase) in Deferred Outflows of Resources	(116,379)	(194,630)
Increase/(Decrease) in accounts payable	4,014	(5,739)
Increase/(Decrease) in accrued expenses	4,691	17,058
Increase/(Decrease) in Net Pension Liability	300,509	220,716
Increase/(Decrease) in Deferred Inflows of Resources	(8,101)	5,659
Total adjustments	570,843	380,911
Net cash provided by operating activities	\$ 616,774	\$ 573,304
NONCASH TRANSACTIONS		
Intergovernmental revenue - interest subsidy	\$ 12,443	\$ 13,290
Interest expense - interest subsidy	\$ (12,443)	\$ (13,290)

See accompanying notes to the basic financial statements.

**NORTHWEST REGIONAL WATER DISTRICT
SCIOTO COUNTY**
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2017 and 2016

NOTE A – NATURE OF ORGANIZATION

Northwest Regional Water District (hereafter referred to as NRWD or the District) was created by the Court of Common Pleas of Scioto County in August of 1966 in accordance with the provisions of Section 6119 et.seq. of the Ohio Revised Code. The District operates under the direction of a twelve member board of trustees. An appointed staff consisting of an office manager and two clerks are responsible for fiscal control of the resources of the District. The District was established to provide an adequate and uncontaminated water supply for the consumption of the water district users, for industrial and business use, and for fire protection. The District serves all parts of the following political subdivisions:

Rush Township	Washington Township
Union Township	Franklin Township
Morgan Township	Jefferson Township
Rarden Village	Brushcreek Township
Otway Village	Camp Creek Township

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. Reporting Entity

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

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

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

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

NORTHWEST REGIONAL WATER DISTRICT
SCIOTO COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2017 and 2016

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2. Basis of Presentation - Fund Accounting

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

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

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

3. Basis of Accounting

The accounting records are maintained on the accrual basis of accounting for financial reporting purposes. Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. Unbilled service charges receivable are recognized as revenue at year end. Expenses are recognized at the time they are incurred.

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. The proprietary fund is accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of the fund are included on the statement of net position. This measurement focus emphasizes the determination of net income. Proprietary fund type operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in net total assets.

4. Budgetary Process

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

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

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

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

5. Cash and Cash Equivalents

Cash balances of the District's enterprise fund are presented as "Cash and Cash Equivalents" on the statement of net position. Interest income earned by the District totaled \$7,123 and \$8,996, respectively, for the years ended December 31, 2017 and 2016.

**NORTHWEST REGIONAL WATER DISTRICT
SCIOTO COUNTY**
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2017 and 2016

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

During fiscal year 2017 and 2016, investments were limited to STAR Ohio, Morgan Stanley Smith Barney investment account, savings accounts and certificates of deposits. Except for nonparticipating investment contracts, investments are reported at fair value which is based on quoted market prices. Nonparticipating investment contracts such as repurchase agreements, savings accounts and non-negotiable certificates of deposit are recorded at cost.

The District has invested funds in the State Treasury Asset Reserve of Ohio (STAR Ohio) during fiscal years 2017 and 2016. STAR Ohio is an investment pool managed by the State Treasurer’s office which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio’s share price which is the price the investment could be sold for on December 31, 2017 and 2016.

The District also has invested funds with broker Morgan Stanley Smith Barney. The invested funds consist of a money fund, mutual funds and certificate of deposits.

For purposes of the statement of cash flows and for presentation on the statement of net position, investments with an initial maturity of more than three months are reported as investments.

6. Capital Assets

Capital assets acquired or constructed for the general use of the District in providing service are recorded at cost. The District has a capitalization threshold of \$1,000. Donated assets are recorded at their estimated acquisition value at the time received. Depreciation of capital assets of the District is calculated utilizing the straight-line method. All assets reported in the basic financial statements are at cost less accumulated depreciation. The estimated useful lives by major capital asset class are as follows:

Lines	50 years	Office/garage building	19 years
Tanks/towers/meters	50 years	Trucks and equipment	5-10 years
Radio telemetry system	25 years	Office equipment and furniture	5-10 years

7. Compensated Absences

Compensated absences of the District consist of vacation and sick time to the extent that payment to the employees for these absences are attributable to services already rendered and are not contingent on a specific event that is outside the control of the District and its employees.

In accordance with provisions of GASB Statement No. 16, “Accounting for Compensated Absences,” a liability for vacation leave is accrued if a) the employees’ rights to payment are attributable to services already rendered; and b) it is probable that the employer will compensate the employees for the benefits through paid time off or other means, such as cash payment at termination or retirement.

Unused sick pay is recorded as a liability based on the Ohio Revised Code Section 124.38. Employees are entitled to 3.08 hours of sick leave for each completed 80 hours up to a maximum of 960 hours and are entitled to a lump sum payment of 1/2 of accumulated sick pay upon retirement or termination if they have more than ten years of service. At December 31, 2017 and 2016, the total vested liability for accumulated unpaid vacation, sick leave and compensatory time recorded was \$111,246 and \$107,258, respectively.

8. Interest Expense

Interest expense represents the interest portion on loan payments the Ohio Water Development District (OWDA).

9. Prepaid Expenses

Payments made to vendors for services that will benefit periods beyond December 31, 2017 and 2016, are recorded as prepaid items by using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expense is reported in the year in which services are provided.

NORTHWEST REGIONAL WATER DISTRICT
SCIOTO COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2017 and 2016

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

10. Accounts Receivable

Accounts receivable are reflected at their gross value reduced by the estimated amount that is expected to be uncollectible. Increases to the allowance are recorded by a provision for bad debt expense. The allowance is maintained by management at a level considered adequate to cover possible losses that are currently anticipated based on past experience, general economic conditions, information about specific account situations, and other factors and estimates which are subject to change over time.

Management considers all accounts receivable to be collected in full and may periodically allocate portions of the allowance for specific problem accounts, with the whole allowance available for any debts that occur. An account is charged off by management as a loss when deemed uncollectible, although most delinquent accounts receivable may be certified and collected as a special assessment, subject to foreclosure for nonpayment. Receivables are presented at net on the statement of net position.

11. Estimates

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

12. Balance Sheet Classifications

The Water District is required to classify its balance sheet, detailing current and noncurrent assets, deferred outflows of resources, current and noncurrent liabilities and restricted and unrestricted net position, as follows:

- (1) Current: Due within one year from December 31, 2017
- (2) Noncurrent: Due after December 31, 2017
- (3) Restricted: Restricted for usage by bond and note covenants and grant restrictions
- (4) Unrestricted: Not restricted for usage

Within the Water District there only exist unrestricted net positions. Restricted net position would be used to cover eligible expenses before unrestricted net position would be used. The unrestricted net position may, upon Water District authorization, be used by the Water District for any lawful purpose.

13. Long Term Obligations

The District records fund obligations not expected to be paid within one year by available financial resources as long-term debt, which consists of OPWC notes and OWDA loans.

14. Deferred Outflows and Deferred Inflows of Resources

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

15. Net Position

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

NORTHWEST REGIONAL WATER DISTRICT
SCIOTO COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2017 and 2016

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

16. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activities of the District. These revenues consist of certain sales and fees. Operating expenses are necessary costs incurred to provide the goods or services that are the primary activity of the District. Revenues and expenses not meeting this definition are reported as non-operating.

17. Pensions

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

NOTE C – CAPITAL ASSETS

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

	Ending Balance at 12/31/2016	Additions	Deletions	Ending Balance at 12/31/2017
Capital Assets, Not Being Depreciated				
Land	\$120,754	\$0	\$0	\$120,754
Construction in Progress	2,975	348,725	(2,975)	348,725
Total Capital Assets, Not Being Depreciated	<u>123,729</u>	<u>348,725</u>	<u>(2,975)</u>	<u>469,479</u>
Capital Assets, Being Depreciated				
Utility plant - lines	12,381,461	16,525	0	12,397,986
Utility plant - towers	1,649,945	0	0	1,649,945
Utility plant - meters	347,342	0	0	347,342
Utility plant - office and garage	260,119	8,314	0	268,433
Office equipment and furniture	132,857	0	0	132,857
Radio telemetry system	344,711	1,774	0	346,485
Trucks and equipment	1,104,031	136,204	(58,016)	1,182,219
Total Capital Assets, Being Depreciated	<u>16,220,466</u>	<u>162,817</u>	<u>(58,016)</u>	<u>16,325,267</u>
Less Accumulated Depreciation:				
Utility plant - lines	(5,587,513)	(247,960)	0	(5,835,473)
Utility plant - towers	(569,471)	(32,999)	0	(602,470)
Utility plant - meters	(252,010)	(8,849)	0	(260,859)
Utility plant - office and garage	(182,616)	(11,228)	0	(193,844)
Office equipment and furniture	(110,440)	(7,929)	0	(118,369)
Radio telemetry system	(314,047)	(5,118)	0	(319,165)
Trucks and equipment	(912,946)	(91,276)	58,016	(946,206)
Total Accumulated Depreciation	<u>(7,929,043)</u>	<u>(405,359)</u>	<u>58,016</u>	<u>(8,276,386)</u>
Total Capital Assets Being Depreciated, Net	<u>8,291,423</u>	<u>(242,542)</u>	<u>0</u>	<u>8,048,881</u>
Total Capital Assets	<u>\$8,415,152</u>	<u>\$106,183</u>	<u>(\$2,975)</u>	<u>\$8,518,360</u>

**NORTHWEST REGIONAL WATER DISTRICT
SCIOTO COUNTY**
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2017 and 2016

NOTE C – CAPITAL ASSETS (Continued)

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

	Ending Balance at 12/31/2015	Additions	Deletions	Ending Balance at 12/31/2016
Capital Assets, Not Being Depreciated				
Land	\$120,754	\$0	\$0	\$120,754
Construction in Progress	249,881	14,692	(261,598)	2,975
Total Capital Assets, Not Being Depreciated	<u>370,635</u>	<u>14,692</u>	<u>(261,598)</u>	<u>123,729</u>
Capital Assets, Being Depreciated				
Utility plant - lines	12,048,553	332,908	0	12,381,461
Utility plant - towers	1,576,155	73,790	0	1,649,945
Utility plant - meters	346,168	1,174	0	347,342
Utility plant - office and garage	256,613	3,506	0	260,119
Office equipment and furniture	132,857	0	0	132,857
Radio telemetry system	342,113	2,598	0	344,711
Trucks and equipment	1,007,513	96,518	0	1,104,031
Total Capital Assets, Being Depreciated	<u>15,709,972</u>	<u>510,494</u>	<u>0</u>	<u>16,220,466</u>
Less Accumulated Depreciation:				
Utility plant - lines	(5,339,884)	(247,629)	0	(5,587,513)
Utility plant - towers	(536,472)	(32,999)	0	(569,471)
Utility plant - meters	(242,976)	(9,034)	0	(252,010)
Utility plant - office and garage	(171,825)	(10,791)	0	(182,616)
Office equipment and furniture	(102,511)	(7,929)	0	(110,440)
Radio telemetry system	(308,380)	(5,667)	0	(314,047)
Trucks and equipment	(846,590)	(66,356)	0	(912,946)
Total Accumulated Depreciation	<u>(7,548,638)</u>	<u>(380,405)</u>	<u>0</u>	<u>(7,929,043)</u>
Total Capital Assets Being Depreciated, Net	<u>8,161,334</u>	<u>130,089</u>	<u>0</u>	<u>8,291,423</u>
Total Capital Assets	<u>\$8,531,969</u>	<u>\$144,781</u>	<u>(\$261,598)</u>	<u>\$8,415,152</u>

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NORTHWEST REGIONAL WATER DISTRICT
SCIOTO COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2017 and 2016

NOTE D – LONG-TERM DEBT

The District has the following notes payable at December 31, 2017 and 2016:

	2017	2016
0% note payable OPWC, payable in semi□ annual installments of \$2,171, due in 2032, secured by property and equipment	\$ 58,620	\$ 62,963
0% note payable OPWC, payable in semi□ annual installments of \$10,707, due in 2022, secured by property and equipment	85,653	107,066
2% note payable OWDA, payable in semi□ annual installments of \$37,050 due in 2018, secured by property and equipment	-	83,470
6.39% note payable OWDA, payable in semi□ annual installments of \$19,309 due in 2026, secured by property and equipment	238,968	261,244
2.86% note payable OWDA, payable in semi□ annual installments of \$5,683 due in 2028, secured by property and equipment	98,248	106,624
4.14% note payable OWDA, payable in semi□ annual installments of \$27,096 due in 2029, secured by property and equipment	491,875	524,681
0% note payable OPWC, payable in semi□ annual installments of \$922 due in 2023, secured by property and equipment	10,139	11,983
0% note payable OPWC, payable in semi□ annual installments of \$705 due in 2025, secured by property and equipment	11,273	12,682
0% note payable OPWC, payable in semi□ annual installments of \$368 due in 2025, secured by property and equipment	5,151	8,731
	999,927	1,179,444
Less current maturities	(96,261)	(176,671)
Total long-term debt	\$ 903,666	\$ 1,002,773

**NORTHWEST REGIONAL WATER DISTRICT
SCIOTO COUNTY**
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2017 and 2016

NOTE D – LONG-TERM DEBT (Continued)

The annual requirements to amortize all bonded debt outstanding as of December 31, 2017 are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$96,261	\$37,659	\$133,920
2019	99,479	34,441	\$133,920
2020	102,863	31,057	\$133,920
2021	106,424	27,496	\$133,920
2022	88,758	23,749	\$112,507
2023-2027	412,911	59,065	\$471,976
2028-2031	\$93,231	\$3,255	\$96,486
Total	<u>\$999,927</u>	<u>\$216,722</u>	<u>\$1,216,649</u>

	<u>Balance</u> 12/31/2016	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> 12/31/2017	<u>Amount Due</u> Within One Year
O.W.D.A.	\$976,019	\$0	\$146,928	\$829,091	\$66,517
O.P.W.C	203,425	0	32,589	170,836	29,744
Net Pension Liabilities	697,975	300,509	0	998,484	0
	<u>\$1,877,419</u>	<u>\$300,509</u>	<u>\$179,517</u>	<u>\$1,998,411</u>	<u>\$96,261</u>

	<u>Balance</u> 12/31/2015	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> 12/31/2016	<u>Amount Due</u> Within One Year
O.W.D.A.	\$1,159,100	\$0	\$183,081	\$976,019	\$146,927
O.P.W.C	233,165	0	29,740	203,425	29,744
Net Pension Liabilities	477,259	220,716	0	697,975	0
	<u>\$1,869,524</u>	<u>\$220,716</u>	<u>\$212,821</u>	<u>\$1,877,419</u>	<u>\$176,671</u>

On February 18, 2016, the District was notified by the Ohio Water Development Authority (OWDA) that they have implemented an interest rate buy-down program to assist communities and local governments with outstanding OWDA loans. Any District OWDA loans with interest rates exceeding 4.00% will see a reduction of the interest ratio to 4.00%. The District will receive an estimated \$68,225 of additional interest subsidies through 2029.

NOTE E – DEPOSITS AND INVESTMENTS

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

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

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

NORTHWEST REGIONAL WATER DISTRICT
SCIOTO COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2017 and 2016

NOTE E – DEPOSITS AND INVESTMENTS (Continued)

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

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

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

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment purchased under section 135 of the Ohio Revised Code must mature within five years from the date of purchase unless matched to a specific obligation or debt of the District, and must be purchased with the expectation that it will be held to maturity. Investments purchased under section 6119 have no such maturity restrictions.

**NORTHWEST REGIONAL WATER DISTRICT
SCIOTO COUNTY**
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2017 and 2016

NOTE E – DEPOSITS AND INVESTMENTS (Continued)

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

Cash on Hand At year end, the District has \$450 in undeposited cash on hand which is included on the statement of net position of the District as part of “cash and cash equivalents”.

Deposits Custodial credit risk is the risk that in the event of a bank failure, the government’s deposits may not be returned to it. The District’s policy for deposits is any balance not covered by depository insurance will be collateralized by the financial institutions with pledged securities. December 31, 2017 and 2016, the carrying amount of the District’s deposits was \$1,880,913 and \$1,864,941, respectively. The bank balance of the District’s deposits at December 31, 2017 and 2016 was \$1,921,330 and \$1,895,059, respectively. Of the bank balances at December 31, 2017 and 2016, \$1,004,642 and \$724,340 were covered by federal depository insurance, respectively. The remaining balances are collateralized by the financial institution’s public entity deposit pool.

Investments are reported at fair value. As of December 31, 2017 and 2016, the District had the following investments:

	<u>Fair Value 2017</u>	<u>Maturity</u>
Negotiable Certificates of Deposit	\$263,207	\$193,281 < 1 year \$69,926 3-5 years
Morgan Stanley-Mutual Fund	9	\$9 < 1 year
STAR Ohio	90,564	\$90,564 < 1 year
Total	<u>\$353,780</u>	

	<u>Fair Value 2016</u>	<u>Maturity</u>
STAR Ohio	\$89,603	30 Days
Morgan Stanley	121,857	Various
Total	<u>\$211,460</u>	

Interest Rate Risk: Interest Rate Risk is the risk that changes in the interest rate will adversely affect the fair value on an investment. The District does not have an investment policy.

Credit Risk STAR Ohio carries a rating of AAA by Standard and Poor’s. Ohio law requires that STAR Ohio maintain the highest rating provided by at least one nationally recognized standard rating service.

Morgan Stanley Smith Barney invests in various funds such as mutual funds, money funds and certificate of deposits. Mutual funds and money funds are not insured or guaranteed by the federal government. The negotiable certificates of deposit are insured up to \$250,000 per account owner per institution.

Concentration of Credit Risk is defined by the Governmental Accounting Standards Board as having five percent or more invested in the securities of a single issuer. The following is the District’s allocation as of December 31, 2017 and 2016:

<u>Year</u>	<u>Investment Type</u>	<u>Percentage of Investments</u>
2017	Negotiable CDs	74%
2017	STAR Ohio	26%
2017	Mutual Funds	<1%
2016	STAROhio	42%
2016	Morgan Stanley	58%

**NORTHWEST REGIONAL WATER DISTRICT
SCIOTO COUNTY**
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2017 and 2016

NOTE F – CONTINGENT LIABILITIES

There were no contingent liabilities as of December 31, 2017 or December 31, 2016.

NOTE G – RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. For fiscal year 2017, the District contracted with Kinder's Insurance Agency for real property, building contents, and vehicle insurance coverage.

The District has not had any significant reductions in insurance coverage from coverage in prior years by major category of risk. Settled claims resulting from the above risks have not exceeded commercial insurance coverage in any of the past three years.

NOTE H - ACCOUNTS RECEIVABLE

Accounts receivables are presented at net realizable value and consist of amounts due from customers for sewer fees for services rendered and contracts amounts billed. Uncollectible accounts receivable are charged to operations during the period they are determined to be uncollectible. Uncollectible accounts receivable are charged to operations during the period determined to be uncollectible. Uncollectible water account balances are certified to the County Auditor after administrative collection efforts have been exhausted. The balance at year end, including billed and unbilled accounts, are due as follows:

2017 – Accounts receivable, net allowance for doubtful accounts - \$504,559

2016 – Accounts receivable, net allowance for doubtful accounts - \$484,985

NOTE I – DEFINED BENEFIT RETIREMENT PLAN

Net Pension Liability

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

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.

**NORTHWEST REGIONAL WATER DISTRICT
SCIOTO COUNTY**
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2017 and 2016

NOTE I – DEFINED BENEFIT RETIREMENT 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.

Plan Description – Ohio Public Employees Retirement System (OPERS)

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

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

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

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

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

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

**NORTHWEST REGIONAL WATER DISTRICT
SCIOTO COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2017 and 2016**

NOTE I – DEFINED BENEFIT RETIREMENT PLAN (Continued)

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

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 to OPERS was \$77,660 in fiscal year 2017. The full amount was contributed during the year.

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

	2017 OPERS	2016 OPERS
Proportionate Share of the Net Pension Liability-Current Year	0.004397%	0.004196%
Proportionate Share of the Net Pension Liability-Prior Year	0.004196%	0.003957%
Change in Proportionate Share	0.000201%	0.000239%
Proportion of the Net Pension Liability	\$998,484	\$697,975
Pension Expense	\$253,689	\$144,119

**NORTHWEST REGIONAL WATER DISTRICT
SCIOTO COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2017 and 2016**

NOTE I – DEFINED BENEFIT RETIREMENT PLAN (Continued)

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

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

	2017	2016
	OPERS	OPERS
Deferred Outflows of Resources		
Differences between expected and actual economic experience	\$1,353	\$0
Differences between expected and actual investment earnings	148,697	213,634
Changes of assumptions	158,372	0
Differences between District contributions and proportionate share of contributions	23,508	0
District contributions subsequent to the measurement date	77,660	79,577
Total	<u>\$409,590</u>	<u>\$293,211</u>
Deferred Inflows of Resources		
Differences between expected and actual economic experience	(\$5,942)	\$14,043
Total	<u>(\$5,942)</u>	<u>\$14,043</u>

\$77,660 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:

Fiscal Year Ending December 31:	<u>OPERS</u>
2018	\$138,466
2019	138,321
2020	53,559
2021	(4,358)
Total	<u>\$325,988</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.

**NORTHWEST REGIONAL WATER DISTRICT
SCIOTO COUNTY**
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2017 and 2016

NOTE I – DEFINED BENEFIT RETIREMENT PLAN (Continued)

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

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

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

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

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

The table below displays the Board-approved asset allocation policy for 2016 and the long-term expected real rates of return:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Weighted Average Long Term Expected Real Rate of Return (Arithmetic)</u>
Fixed Income	23.00 %	2.75 %
Domestic Equities	20.70	6.34
Real Estate	10.00	4.75
Private Equity	10.00	8.97
International Equities	18.30	7.95
Other Investments	18.00	4.92
Total	<u>100.00 %</u>	<u>5.66 %</u>

**NORTHWEST REGIONAL WATER DISTRICT
SCIOTO COUNTY**
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2017 and 2016

NOTE I – DEFINED BENEFIT RETIREMENT PLAN (Continued)

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

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

	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
District's proportionate share of the net pension liability	\$1,525,407	\$998,484	\$559,386

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

NOTE J – POSTEMPLOYMENT BENEFITS

Ohio Public Employees Retirement System

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

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

In order to qualify for health care coverage, age-and-service retirees under the Traditional Pension and Combined plans must have 20 or more years of qualifying Ohio service credit. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available. The health care coverage provided by OPERS meets the definition of an Other Post-Employment Benefit (OPEB) as described in GASB Statement No. 45. Please see the Plan Statement in the OPERS 2016 CAFR for details.

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

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

NORTHWEST REGIONAL WATER DISTRICT
SCIOTO COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2017 and 2016

NOTE J - POSTEMPLOYMENT BENEFITS - Continued

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

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

Each year, the OPERS Board determines the portion of the employer contribution rate that will be set aside to fund health care plans. The portion of employer contributions allocated to health care for members in the Traditional Pension Plan and Combined Plan was 1.0% during calendar year 2017.

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

Substantially all of the District’s contribution allocated to fund post-employment health care benefits relates to the cost-sharing, multiple employer trusts. The corresponding contribution for the years ended December 31, 2017, 2016, and 2015 was \$5,971, \$16,758 and \$14,327, respectively. The full amount has been contributed for 2017, 2016 and 2015.

NOTE K – NEW ACCOUNTING PRINCIPLES

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

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

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

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

REQUIRED SUPPLEMENTARY INFORMATION

Northwest Regional Water District
Required Supplementary Information
Schedule of the District's Proportionate Share of the Net Pension Liability
Ohio Public Employees Retirement System
2016 (1)

	2016
Total plan pension liability	\$ 99,817,932,954
Plan net position	77,109,633,485
Net pension liability	22,708,299,469
District's proportion of the net pension liability	0.004397%
District's proportionate share of the net pension liability	\$ 998,484
District's covered-employee payroll	\$ 663,142
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	150.60%
Plan fiduciary net position as a percentage of the total pension liability	77.30%

(1) Information prior to 2016 is not available.
Amounts presented as of the District's measurement date which is the prior fiscal year.

Northwest Regional Water District
Required Supplementary Information
Schedule of District Contributions
Ohio Public Employees Retirement System
Last Two Years (1)

	2017	2016
Contractually required contribution	\$ 77,660	\$ 79,577
Contributions in relation to the contractually required contribution	(77,660)	(79,577)
Contribution deficiency (excess)	\$ -	\$ -
District's covered-employee payroll	\$ 597,385	\$ 663,142
Contributions as a percentage of covered employee payroll	13.00%	12.00%

(1) Information prior to 2016 is not available.

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

Northwest Regional Water District
Scioto County
123 Smith Street
McDermott, Ohio 45652

Members of the Board of Directors:

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 Northwest Regional Water District, Scioto County, Ohio, (the District) as of and for the years ended December 31, 2018, 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 June 28, 2019 wherein we noted during 2018 the District adopted new accounting guidance in Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*.

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 opinions on the financial statements, but not to the extent necessary to opine on the effectiveness of the District's internal control. Accordingly, we have not opined on it.

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

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

Compliance and Other Matters

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

Purpose of this Report

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

BHM CPA Group

BHM CPA Group Inc.
Piketon, Ohio
June 28, 2019

Northwest Regional Water District
Scioto County, Ohio
 Schedule of Prior Audit Findings
 June 30, 2018

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain:
2016-001	Internal Control Deficiency – Financial Reporting	Yes	Corrective Action Taken

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OHIO AUDITOR OF STATE KEITH FABER



NORTHWEST REGIONAL WATER DISTRICT

SCIOTO 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
SEPTEMBER 17, 2019**