



Dave Yost • Auditor of State

**CARROLL WATER AND SEWER DISTRICT
OTTAWA COUNTY
DECEMBER 31, 2016 AND 2015**

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Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT

Carroll Water and Sewer District
Ottawa County
10340 West State Route 2
Oak Harbor, Ohio 43449-9013

To the Board of Trustees:

Report on the Financial Statements

We have audited the accompanying cash basis financial statements of Carroll Water and Sewer District, Ottawa County, Ohio (the District), as of and for the years ended December 31, 2016 and 2015, 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 the cash accounting basis Note B describes. This responsibility includes determining that the cash accounting basis is acceptable for the circumstances. Management is also responsible for 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 cash financial position of Carroll Water and Sewer District, Ottawa County, Ohio, as of December 31, 2016 and 2015, and the respective changes in cash financial position for the years then ended in accordance with the accounting basis described in Note B.

Accounting Basis

We draw attention to Note B of the financial statements, which describes the accounting basis. The financial statements are prepared on the cash basis of accounting, which differs from generally accepted accounting principles. We did not modify our opinion regarding this matter.

Other Matters

Other Information

We applied no procedures to Management's Discussion and Analysis as listed in the table of contents. Accordingly, we express no opinion or any other assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 17, 2017, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.



Dave Yost
Auditor of State

Columbus, Ohio

October 17, 2017

Carroll Water and Sewer District
Management's Discussion and Analysis
For the Years Ended December 31, 2016 and 2015
(Unaudited)

This discussion and analysis, along with the accompanying basic financial statements and notes to the basic financial statements, of Carroll Water and Sewer District ("the District") is designed to provide our customers, creditors and other interested parties with a general overview of the District and its financial activities.

FINANCIAL HIGHLIGHTS

The District's cash and cash equivalents increased by \$116,453 (3.5%) in 2016 and \$13,573 (0.4%) in 2015.

The District's operating cash receipts increased by \$110,682 (15.6%) in 2016 and increased by \$4,236 (0.7%) in 2015.

The District's operating cash disbursements increased by \$9,130 (1.3%) in 2016 and decreased by \$170,649 (20.1%) in 2015.

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 cash basis of accounting which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

The Statements of Net Position - Cash Basis and the Statements of Receipts, Disbursements, and Changes in Net Position - Cash Basis provide information on the District's cash basis operations over the past two years and the success of recovering all its costs through user fees, charges, and other income. Receipts are reported when received and disbursements are reported when paid.

Basis of Accounting

The basis of accounting is a set of guidelines that determines when financial events are recorded. The District has elected to present its financial statements on a cash basis of accounting. This basis of accounting is a basis of accounting other than accounting principles generally accepted in the United States of America. Under the District's cash basis of accounting, receipts and disbursements are recorded when cash is received or paid.

As a result of using the cash basis of accounting, certain assets and their related revenues (such as accounts receivable) and certain liabilities and their related expenses (such as accounts payable) are not recorded in the financial statements. Therefore, when reviewing the financial information and discussion within this report, the reader must keep in mind the limitations resulting from the use of the cash basis of accounting.

STATEMENTS OF NET POSITION - CASH BASIS

Table 1 summarizes the Statements of Net Position – Cash Basis of the District.

Table 1
Statements of Net Position - Cash Basis

	<u>2016</u>	<u>2015</u>	<u>Change Amount</u>	<u>2014</u>	<u>Change Amount</u>
Assets					
Cash and Cash Equivalents	<u>\$3,406,760</u>	<u>\$3,290,307</u>	<u>\$116,453</u>	<u>\$3,276,734</u>	<u>\$13,573</u>
Net Position					
Unrestricted	<u>\$3,406,760</u>	<u>\$3,290,307</u>	<u>\$116,453</u>	<u>\$3,276,734</u>	<u>\$13,573</u>

Carroll Water and Sewer District
Management's Discussion and Analysis
For the Years Ended December 31, 2016 and 2015
(Unaudited)

The District's increases in net cash position for 2016 and 2015 are a result of higher receipts over disbursements in each year.

STATEMENTS OF CHANGES IN NET ASSETS – CASH BASIS

Table 2 below summarizes the Statements of Changes in Receipts, Disbursements and the resulting changes in Net Position – Cash Basis .

Table 2
Statements of Cash Receipts, Disbursements and Changes in Net Position – Cash Basis

	<u>2016</u>	<u>2015</u>	<u>Change Amount</u>	<u>2014</u>	<u>Change Amount</u>
Operating Cash Receipts	\$755,815	\$645,133	\$110,682	\$640,897	\$4,236
Operating Cash Disbursements	(686,124)	(676,994)	9,130	(847,643)	(170,649)
Operating Cash Receipts Over/ (Under)					
Operating Cash Disbursements	69,691	(31,861)	101,552	(206,746)	174,885
Non-Operating Cash Receipts	52,216	54,204	(1,988)	29,845	24,359
Non-Operating Cash Disbursements	(5,454)	(8,770)	(3,316)	(3,577)	5,193
Changes in Net Position	116,453	13,573	102,880	(180,478)	194,051
Net Position, January 1	3,290,307	3,276,734	13,573	3,457,212	(180,478)
Net Position, December 31	<u>\$3,406,760</u>	<u>\$3,290,307</u>	<u>\$116,453</u>	<u>\$3,276,734</u>	<u>\$13,573</u>

For 2016, operating cash receipts increased due to a rate increase. Operating cash disbursements increased due to higher expenses. Non-operating cash receipts decreased due no new grants received. The Non-operating cash disbursements decreased due to the payment being made on various loans to the Township loan during 2016.

For 2015, operating receipts increased \$4,236 due to collection of billings. Operating cash disbursements decreased with the ozone project completed in 2014. Non-operating cash receipts increased with the State Grant received in the amount of \$24,500 for the purchase of Cyanotoxin Testing Equipment. Non-operating cash disbursements increased due to the payment being made on various loans to the Township during 2015.

CAPITAL ASSETS

The District does not record capital assets in the accompanying basic financial statements under the cash basis of accounting, but records payments for capital assets as disbursements. The District recorded capital outlay of \$36,950 and \$34,777 in 2016 and 2015, respectively.

DEBT

Under the cash basis of accounting, the District does not report loans in the accompanying basic financial statements. However, in order to provide information to the readers of this report, we are providing the following detailed information in Table 3 about loans. Additional information regarding debt can be found in Note E to the Basic Financial Statements.

Carroll Water and Sewer District
Management's Discussion and Analysis
For the Years Ended December 31, 2016 and 2015
(Unaudited)

Table 3
Long-Term Debt Obligations

	<u>2016</u>	<u>2015</u>	<u>Change Amount</u>	<u>2014</u>	<u>Change Amount</u>
Ohio Public Works Commission Loan	\$30,401	\$33,978	(\$3,577)	\$37,555	(\$3,577)
Carroll Township Loan	1,720,487	1,722,364	(1,877)	1,727,557	(5,193)
Total Long Term Debt	<u>\$1,750,888</u>	<u>\$1,756,342</u>	<u>(\$5,454)</u>	<u>\$1,765,112</u>	<u>(\$8,770)</u>

CASH AND CASH EQUIVALENTS

Cash and cash equivalents as of December 31, 2016 and 2015 were \$3,406,760 and \$3,290,307, respectively.

CURRENT ISSUES

Carroll Water and Sewer District strives to treat the water from Lake Erie to maintain the high standards required by the Ohio Environmental Protection Service for a Public Drinking Water System. In order to maintain this quality of service, the District reviews the adequacy of its water rates on an annual basis to ensure that expenses are being met.

CONTACT INFORMATION

Questions regarding this report and requests for additional information should be forwarded to the Carroll Water and Sewer District, 10340 West State Route 2, Oak Harbor, Ohio 43449 or (419) 898-5028.

Carroll Water and Sewer District
Ottawa County
Statements of Net Position - Cash Basis
December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Assets		
Equity in Pooled Cash and Cash Equivalents	<u>\$3,406,760</u>	<u>\$3,290,307</u>
Net Position		
Unrestricted	<u>\$3,406,760</u>	<u>\$3,290,307</u>

See accompanying notes to the basic financial statements

Carroll Water and Sewer District
Ottawa County
Statements of Receipts, Disbursements, and
Changes in Net Position - Cash Basis
For the Years Ended December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Operating Cash Receipts		
Charges for Services	<u>\$755,815</u>	<u>\$645,133</u>
Operating Cash Disbursements		
Personal Services	437,530	409,863
Insurance	12,280	11,805
Utilities	75,435	77,302
General Office Expense	22,340	20,679
Other Contractual Services	7,780	16,212
Testing and Chemical Expenses	35,393	45,016
Meters, Piping and Supplies Expense	53,366	56,622
Auto Expense	5,050	4,718
Capital Outlay	<u>36,950</u>	<u>34,777</u>
<i>Total Operating Cash Disbursements</i>	<u>686,124</u>	<u>676,994</u>
<i>Operating Income (Loss)</i>	<u>69,691</u>	<u>(31,861)</u>
Non-Operating Cash Receipts (Disbursements)		
Tap Fees-New Taps	5,000	4,000
Rent and Miscellaneous	29,893	22,266
Intergovernmental		24,500
Interest	17,323	3,438
Principal Retirement	<u>(5,454)</u>	<u>(8,770)</u>
<i>Total Non-Operating Cash Receipts (Disbursements)</i>	<u>46,762</u>	<u>45,434</u>
<i>Changes in Net Position</i>	<u>116,453</u>	<u>13,573</u>
<i>Net Position Beginning of Year</i>	<u>3,290,307</u>	<u>3,276,734</u>
<i>Net Position End of Year</i>	<u>\$3,406,760</u>	<u>\$3,290,307</u>

See accompanying notes to the basic financial statements

Carroll Water and Sewer District
Notes to the Basic Financial Statements
For the Years Ended December 31, 2016 and 2015

NOTE A - NATURE OF ORGANIZATION

Carroll Water and Sewer District, Ottawa County, Ohio (the District) is a body corporate and politic established to exercise the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The District was created during 1991 by the Court of Common Pleas of Ottawa County to provide water and sewer services to the residents of Carroll Township in accordance with the provisions of Ohio Rev. Code Section 6119 et.seq. A three (3) member appointed Board of Trustees who are appointed by the Trustees of Carroll Township manage the District.

In accordance with the provisions of Governmental Accounting Standards Board (GASB), 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 payable solely from District receipts.

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

In 2016, the District participated in the Public Entities Risk Pool of Ohio, a public entity risk pool providing property and casualty coverage for its members. In 2015, the District participated in Ohio Plan Risk Management, Inc., a public entity risk pool providing property, liability, errors and omissions, law enforcement, automobile, excess liability, crime, surety and bond, inland marine and other coverages to its members. Note H to the financial statements provides additional information for these entities.

The District's management believes these financial statements present all activities for which the District is financially accountable.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A summary of the significant accounting policies applied in preparation of the accompanying financial statements follows:

1. Basis of Accounting

These financial statements follow the cash basis of accounting, (a comprehensive basis of accounting other than generally accepted accounting principles). Receipts are recognized when received in cash rather than when earned, and disbursements are recognized when paid rather than when a liability is incurred.

As a result of the use of the cash basis of accounting as described above, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected) and liabilities and their related expenses (such as accounts payable and expenses for goods and services received but not yet paid, and accrued expenses and liabilities) are not recorded in these financial statements. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting as described above.

These statements include adequate disclosure of material matters in accordance with the cash basis of accounting as described above.

Carroll Water and Sewer District
Notes to the Basic Financial Statements
For the Years Ended December 31, 2016 and 2015

2. Cash and Cash Equivalents

For reporting purposes, the District considers “Cash and Cash Equivalents” to be cash on hand, demand deposits, and all investments held by the District with a maturity date less than or equal to three months from the date of purchase.

During 2016 and 2015, the District invested in STAR Ohio. STAR Ohio (the State Treasury Asset Reserve of 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 has adopted Governmental Accounting Standards Board (GASB), Statement No. 79, “Certain External Investment Pools and Pool Participants.” The District also implemented GASB Statement No. 79 for 2016. The implementation of this GASB pronouncement had no effect on beginning net position/fund balance. The District measures its investment in STAR Ohio at the net asset value (NAV) per share provided by STAR Ohio. The NAV per share is calculated on an amortized cost basis that provides an NAV per share that approximates fair value.

For 2016 and 2015, there were no limitations or restrictions on any participant withdrawals due to redemption notice periods, liquidity fees, or redemption gates. However, notice must be given 24 hours in advance of all deposits and withdrawals exceeding \$25 million. STAR Ohio reserves the right to limit the transaction to \$50 million, requiring the excess amount to be transacted the following business day(s), but only to the \$50 million limit. All accounts of the participant will be combined for these purposes.

3. 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 fund type and a single fund within that fund type. The fund accounts for the governmental resources allocated to it and the segregation of cash and investments 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 certain goods or services to the general public on a continuing basis are financed or received primarily through user charges.

4. Budgetary Process

The Ohio Rev. Code requires the District to adopt an annual budget.

Appropriations – Budgetary expenditures (that is, disbursements and encumbrances) may not exceed appropriations at the function level of control, and appropriations may not exceed estimated resources. Appropriation authority includes current year appropriations plus encumbrances carried over from the prior year (if any). 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 cash balances as of January 1.

Encumbrances – The Ohio Rev. Code requires the District to reserve (encumber) appropriations when commitments are made. Encumbrances outstanding at year end are canceled, and reappropriated in the subsequent year.

A summary of 2016 and 2015 budgetary activity appears in Note D.

Carroll Water and Sewer District
Notes to the Basic Financial Statements
For the Years Ended December 31, 2016 and 2015

5. Capital Assets

Acquisitions of capital assets (property, plant and equipment) are recorded as capital outlay disbursements when paid. These items are not reflected as assets on the accompanying basic financial statements.

6. Unpaid Vacation and Sick Leave

An employee with at least ten (10) years of service for the District may elect, at the time of retirement from active service, to be paid in cash for one hundred percent (100%) of the value of up to one thousand (1,000) hours of the employee's accrued but unused sick leave.

Upon the death of an employee, the employee's family or estate shall be paid for one hundred percent (100%) of the value of up to two thousand eighty (2,080) hours of the employee's accrued but unused sick leave.

Unpaid vacation and sick leave are not reflected as liabilities under the cash basis of accounting used by the District.

7. Tax Exempt Status

The District operates as a public water and sewer system exempt from federal income tax under Internal Revenue Code Section 501(c)(1).

8. Long-Term Obligations

In general, loans are recorded as cash disbursements in the basic financial statements when paid. These items are not reflected as liabilities on the accompanying basic financial statements.

9. Net Position

Net position represents the difference between assets and liabilities. Since under the District's current basis of accounting, the District does not record any other assets other than cash and cash equivalents and does not record any liabilities, net position is equal to cash and cash equivalents. The District currently does not record any restrictions on its net position.

10. Operating Cash Receipts and Cash Disbursements

Operating cash receipts are those receipts that are generated directly from the primary activity of the proprietary fund. For the District, these cash receipts are charges for water and sewer services provided. Operating cash disbursements are necessary costs incurred to provide the goods and/or services that are the primary activity of the fund. Receipts and disbursements not meeting these criteria are reflected as non-operating in the basic financial statements.

NOTE C – CASH AND INVESTMENTS

Monies held by the District as reclassified into three categories.

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

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

Carroll Water and Sewer District
Notes to the Basic Financial Statements
For the Years Ended December 31, 2016 and 2015

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

Interim monies held by the District can 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 any other obligations or securities issued by any federal government agency or instrumentality, including, but not limited to, 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. No-load money market mutual funds consisting exclusively of obligations described in (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;
4. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;
5. 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;
6. The State Treasurer's investment pool (STAR Ohio);
7. 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; and
8. Written repurchase agreements in the securities described in (1) or (2) provided the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and the term of the agreement must not exceed thirty days.

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.

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

Carroll Water and Sewer District
Notes to the Basic Financial Statements
For the Years Ended December 31, 2016 and 2015

Investments:

As of December 31, 2016 the District had the following investments and maturities:

<u>Investment type</u>	<u>Amount</u>	<u>6 months or less</u>
STAR Ohio	\$3,331,714	\$3,331,714

As of December 31, 2015 the District had the following investments and maturities:

<u>Investment type</u>	<u>Amount</u>	<u>6 months or less</u>
STAR Ohio	\$3,214,443	\$3,214,443

The District’s investments in STAR Ohio are valued at the daily redemption value as reported by the underlying fund (Level 1 inputs).

Interest rate risk – Interest rate risk arises because potential purchasers of debt securities will not agree to pay face value for those securities if interest rates subsequently increase. In accordance with the investment policy, the District manages its exposure to declines in fair values by limiting the weighted average maturity of its investment portfolio.

Credit risk – Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Standard & Poor’s has assigned STAR Ohio an AAAM money market rating. STAR Ohio must maintain the highest letter or numerical rating provided by at least one nationally recognized standard rating service.

Concentration of credit risk – Concentration of credit risk is the risk of loss attributed to the magnitude of a government’s investment in a single issuer. The District places no limit on the amount it may invest in any one issuer. The District has invested 100% in STAR Ohio.

NOTE D – BUDGETARY ACTIVITY

Budgetary activity for the years ended December 31, 2016 and 2015 was as follows:

<u>Budgeted vs. Actual Receipts</u>		
<u>Description</u>	<u>2016</u>	<u>2015</u>
Budgeted Receipts	\$795,236	\$786,469
Actual Receipts	808,031	699,337
Variance	\$12,795	(\$87,132)

<u>Budgeted vs. Actual Budgetary Basis Expenditures</u>		
<u>Fund Type</u>	<u>2016</u>	<u>2015</u>
Appropriation Authority	\$788,366	\$810,935
Budgetary Expenditures	691,578	685,764
Variance	\$96,788	\$125,171

Carroll Water and Sewer District
Notes to the Basic Financial Statements
For the Years Ended December 31, 2016 and 2015

NOTE E - DEBT

Long Term Obligations

Debt Issue	Interest Rate	Original Issue Amount	Date of Maturity
Ohio Public Works Commission (OPWC Loan)	0.00%	\$71,532	July 1, 2025
Carroll Township Loans	0.00%	\$1,892,935	N/A

The changes in the District's long-term debt during 2016 and 2015 were as follows:

	Outstanding 12/31/15	Additions	Deletions	Outstanding 12/31/16	Due in One Year
OPWC Loan	\$33,978		\$3,577	\$30,401	\$3,577
Carroll Township Loans	1,722,364		1,877	1,720,487	
Total	\$1,756,342		\$5,454	\$1,750,888	\$3,577

	Outstanding 12/31/14	Additions	Deletions	Outstanding 12/31/15	Due in One Year
OPWC Loan	\$37,555		\$3,577	\$33,978	\$3,577
Carroll Township Loans	1,727,557		5,193	1,722,364	
Total	\$1,765,112		\$8,770	\$1,756,342	\$3,577

In 2005, the District obtained a \$71,532, interest free loan from the OPWC, for a water distribution system corrosion control improvement project. The loan will be repaid in biennial installments of \$1,788 over a twenty-year period.

In 1992, the District obtained a \$30,000, interest free loan from Carroll Township, to be repaid as funds are available, with no specified due date. In 1993, the District obtained a \$200,000, interest free loan from Carroll Township, to be repaid as funds are available, with no specified due date. In 1998, the District obtained a \$1,003,322, interest free loan from Carroll Township, to be repaid as funds are available, with no specified due date. In 1999, the District obtained a \$265,890, interest free loan from Carroll Township, to be repaid as funds are available, with no specified due date. In 2000, the District obtained a \$375,531, interest free loan from Carroll Township, to be repaid as funds are available, with no specified due date. In 2001, the District obtained a \$18,192, interest free loan from Carroll Township, to be repaid as funds are available, with no specified due date. During 2016 and 2015 the District paid 10% of its net cash inflow in the amounts of \$1,877 and \$5,193, respectively, for these loans.

Amortization of the OPWC loan is as follows:

Year	Amount
2017	\$3,577
2018	3,577
2019	3,577
2020	3,577
2021	3,577
2022-2025	12,516
Total	\$30,401

The Carroll Township loans are not included in the above amortization schedule because they have no specified due dates.

Carroll Water and Sewer District
Notes to the Basic Financial Statements
For the Years Ended December 31, 2016 and 2015

NOTE F – DEFINED BENEFIT PENSION PLAN

Plan Description – Ohio Public Employees Retirement System (OPERS)

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

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

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

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Carroll Water and Sewer District
Notes to the Basic Financial Statements
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Group A	Group B	Group C
Eligible to retire prior to January 7, 2013 or five years after January 7, 2013	20 years of service credit prior to January 7, 2013 or eligible to retire ten years after January 7, 2013	Members not in other Groups and members hired on or after January 7, 2013
State and Local	State and Local	State and Local
Age and Service Requirements:	Age and Service Requirements:	Age and Service Requirements:
Age 60 with 60 months of service credit or Age 55 with 25 years of service credit	Age 60 with 60 months of service credit or Age 55 with 25 years of service credit	Age 57 with 25 years of service credit or Age 62 with 5 years of service credit
Formula:	Formula:	Formula:
2.2% of FAS multiplied by years of service for the first 30 years and 2.5% for service years in excess of 30	2.2% of FAS multiplied by years of service for the first 30 years and 2.5% for service years in excess of 30	2.2% of FAS multiplied by years of service for the first 35 years and 2.5% for service years in excess of 35
Public Safety	Public Safety	Public Safety
Age and Service Requirements:	Age and Service Requirements:	Age and Service Requirements:
Age 48 with 25 years of service credit or Age 52 with 15 years of service credit	Age 48 with 25 years of service credit or Age 52 with 15 years of service credit	Age 52 with 25 years of service credit or Age 56 with 15 years of service credit
Law Enforcement	Law Enforcement	Law Enforcement
Age and Service Requirements:	Age and Service Requirements:	Age and Service Requirements:
Age 52 with 15 years of service credit	Age 48 with 25 years of service credit or Age 52 with 15 years of service credit	Age 48 with 25 years of service credit or Age 56 with 15 years of service credit
Public Safety and Law Enforcement	Public Safety and Law Enforcement	Public Safety and Law Enforcement
Formula:	Formula:	Formula:
2.5% of FAS multiplied by years of service for the first 25 years and 2.1% for service years in excess of 25	2.5% of FAS multiplied by years of service for the first 25 years and 2.1% for service years in excess of 25	2.5% of FAS multiplied by years of service for the first 25 years and 2.1% for service years in excess of 25

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

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

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

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

Carroll Water and Sewer District
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	State and Local	
2016 and 2015 Statutory Maximum Contribution Rates		
Employer	14.0	%
Employee	10.0	%
2016 and 2015 Actual Contribution Rates		
Employer:		
Pension	12.0	%
Post-employment Health Care Benefits	2.0	
Total Employer	14.0	%
Employee	10.0	%

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

The District's contractually required contributions to OPERS for the years ended December 31, 2016, 2015, and 2014 were \$70,591, \$68,739, and \$62,892, respectively, which were equal to the required contributions for those years.

NOTE G - POSTEMPLOYMENT BENEFITS

Ohio Public Employees Retirement System

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

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

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

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

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

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

Employer contribution rates are expressed as a percentage of the earnable salary of active members. In 2016, state and local employers contributed at a rate of 14.0 percent of earnable salary and public safety and law enforcement employers

Carroll Water and Sewer District
Notes to the Basic Financial Statements
For the Years Ended December 31, 2016 and 2015

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.

At the beginning of 2016, OPERS maintained three health care trusts. The two cost-sharing, multiple employer trusts, the 401(h) Health Care Trust (401(h) Trust) and the 115 Health Care Trust (115 Trust), worked together to provide health care funding to eligible retirees of the Traditional Pension and Combined plans. Each year, the OPERS Board of Trustees determines the portion of the employer contributions rate that will be set aside to fund health care plans. As recommended by OPERS' actuary, the portion of employer contributions allocated to health care beginning January 1, 2016 remained at 2.0 percent for both the Traditional Pension and Combined plans. The Board is also authorized to establish rules for the retiree or their surviving beneficiaries to pay a portion of the health care provided. Payment amounts vary depending on the number of covered dependents and the coverage selected. The third trust is a Voluntary Employee's Beneficiary Association (VEBA) Trust that provides funding for a Retiree Medical Account (RMA) for Member-Directed Plan members. The employer contribution as a percentage of covered payroll deposited to the RMAs for 2016 was 4.0 percent.

In March 2016, OPERS received two favorable rulings from the IRS allowing OPERS to consolidate all health care assets into the 115 Trust. Transition to the new health care trust structure occurred during 2016. OPERS Combining Statements of Changes in Fiduciary Net Position for the year ended December 31, 2016, will reflect a partial year of activity in the 401(h) Trust and VEBA Trust prior to the termination of these trusts as of end of business day June 30, 2016, and the assets and liabilities, or net position, of these trusts being consolidated into the 115 Trust on July 1, 2016.

Substantially all of the District's contribution allocated to fund postemployment health care benefits relates to the cost-sharing, multiple employer trusts. The corresponding contribution for the years ended December 31, 2016, 2015, and 2014 was \$1,441, \$1,403, and \$1,284, respectively. The full amount has been contributed for all three years.

NOTE H – RISK MANAGEMENT

Risk Pool Membership

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

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

During 2016 the District belonged to the Public Entities Pool of Ohio (PEP), a risk-sharing pool available to Ohio local governments. PEP provides property and casualty coverage for its members. York Insurance Services Group, Inc. (York) functions as the administrator of PEP and provides underwriting, claims, loss control, risk management, and reinsurance services for PEP. PEP is a member of the American Public Entity Excess Pool (APEEP), which is also administered by York. Member governments pay annual contributions to fund PEP. PEP pays judgments, settlements and other expenses resulting from covered claims that exceed the members' deductibles.

Casualty and Property Coverage

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

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

Financial Position

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

Carroll Water and Sewer District
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For the Years Ended December 31, 2016 and 2015

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

At December 31, 2016 the liabilities above include approximately 12.0 million of estimated incurred claims payable. The assets above also include approximately \$11.5 million of unpaid claims to be billed. The Pool's membership increased to 520 members in 2016. These amounts will be included in future contributions from members when the related claims are due for payment. As of December 31, 2016, the Government's share of these unpaid claims collectible in future years is approximately \$8,000.

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

<u>2016 Contributions to PEP</u> \$12,180

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

During 2015 the District belonged to the Ohio Plan Risk Management, Inc. (OPRM) - formerly known as the Ohio Government Risk Management Plan, (the "Plan"), a non-assessable, unincorporated non-profit association providing a formalized, jointly administered self-insurance risk management program and other administrative services to Ohio governments ("Members"). The Plan is legally separate from its member governments.

Pursuant to Section 2744.081 of the Ohio Revised Code, the plan provides property, liability, errors and omissions, law enforcement, automobile, excess liability, crime, surety and bond, inland marine and other coverages to its members sold through fourteen appointed independent agents in the State of Ohio.

OPRM coverage programs are developed specific to each member's risk management needs and the related premiums for coverage are determined through the application of uniform underwriting criteria addressing the member's exposure to loss. Effective November 1, 2012 (and through October 2014) the plan increased its retention to 50% of the first \$250,000 casualty treaty. Effective November 1, 2014, the OPRM retained 47% of the premium and losses on the first \$250,000 casualty treaty and 10% of the first \$1,000,000 property treaty. Members are only responsible for their self-retention (deductible) amounts, which vary from member to member. OPRM had 772 and 783 members as of December 31, 2015 and 2014 respectively.

Plan members are responsible to notify the Plan of their intent to renew coverage by their renewal date. If a member chooses not to renew with the Plan, they have no other financial obligation to the Plan, but still need to promptly notify the Plan of any potential claims occurring during their membership period. The former member's covered claims, which occurred during their membership period, remain the responsibility of the Plan.

Settlement amounts did not exceed insurance coverage for the past three fiscal years.

The Pool's audited financial statements conform with generally accepted accounting principles, and reported the following assets, liabilities and equity at December 31, 2015.

Carroll Water and Sewer District
Notes to the Basic Financial Statements
For the Years Ended December 31, 2016 and 2015

	<u>2015</u>
Assets	\$14,643,667
Liabilities	<u>(9,112,030)</u>
Members' Equity	<u>\$5,531,637</u>

You can read the complete audited financial statements for OPRM at the Plan's website, www.ohioplan.org.

NOTE I – CONTINGENT LIABILITIES

The District is not currently party to litigation.

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Dave Yost • Auditor of State

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

Carroll Water and Sewer District
Ottawa County
10340 West State Route 2
Oak Harbor, Ohio 43449-9013

To the Board of Trustees:

We have audited in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' Government Auditing Standards, the cash basis financial statements of Carroll Water and Sewer District, Ottawa County, Ohio (the District) as of and for the years ended December 31, 2016 and 2015, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated October 17, 2017, wherein we noted the District uses a special purpose framework other than generally accepted accounting principles.

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. Therefore, unidentified material weaknesses or significant deficiencies may exist. Given these limitations, we did not identify any deficiencies in internal control that we consider material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings that we consider significant deficiencies. We consider findings 2016-001 and 2016-002 to be significant deficiencies.

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*.

Entity's Response to Findings

The District's responses to the findings identified in our audit are described in the accompanying schedule of findings. We did not audit the District's responses and, accordingly, we express no opinion on them.

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.



Dave Yost
Auditor of State

Columbus, Ohio

October 17, 2017

**CARROLL WATER AND SEWER DISTRICT
OTTAWA COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2016 AND 2015**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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FINDING NUMBER 2016-001

Significant Deficiency – Financial Reporting

Sound financial reporting is the responsibility of the Fiscal Officer and the Board of Trustees and is essential to ensure the information provided to the readers of the basic financial statements is complete and accurate.

We identified the following error requiring adjustment to the notes to the basic financial statements for the year ended December 31, 2016:

Budgeted receipts were increased in the amount of \$25,636 in order to bring amounts reported in the notes to the basic financial statements in line with authorized budget amounts.

We identified the following errors requiring adjustment to the basic financial statements and/or notes to the basic financial statements for the year ended December 31, 2015:

- Intergovernmental receipts in the amount of \$24,500 were improperly classified as rent and miscellaneous receipts;
- Budgeted receipts were decreased in the amount of \$24,466 in order to bring the notes to the basic financial statements in line with authorized budget amounts;
- Actual revenues (budgetary basis) were increased in the amount of \$24,501 in order to bring the notes to the basic financial statements in line with authorized budget amounts; and
- Actual expenditures (budgetary basis) were decreased in the amount of \$46,735 in order to bring the notes to the basic financial statements in line with authorized budget amounts.

Additional insignificant errors were also noted for the years ended December 31, 2016 and 2015. These errors were not identified and corrected prior to the District preparing its basic financial statements due to deficiencies in the District's internal controls over financial statement monitoring. The accompanying basic financial statements, and where applicable, the District's accounting records have been adjusted to reflect these changes. Sound financial reporting is the responsibility of the Fiscal Officer and the Board of Trustees and is essential to ensure the information provided to the readers of the financial statements and accompanying notes is complete and accurate.

To help ensure the District's financial statements and notes to the statements are complete and accurate, the District should adopt policies and procedures, including a final review of the basic financial statements and notes by the Fiscal Officer, to identify and correct errors and omissions.

Officials' Response:

The reporting deficiency of the financial statement for the year ended December 31, 2016 was due to the interpretation of the verbal suggestions given by the State Auditor during the previous audit period. We reported as we were directed which resulted in the financial statements needing a correction, in the future a final review of the financial statements will happen before they are submitted.

FINDING NUMBER 2016-002

Significant Deficiency – Non-Cash Adjustments

The District's management is responsible for designing, implementing and maintaining internal controls. The District has not established a formal policy over non-cash adjustments to customer accounts. Furthermore, non-cash adjustments are posted to customer accounts by the Fiscal Officer with no documented independent approval or review.

The lack of an independent review and approval for non-cash adjustments with an appropriate trail of evidence may result in improper billings with the District not billing and receiving the correct amounts due, as well as increasing the susceptibility for misappropriation of assets, as lapping could occur and go undetected.

We recommend the District develop a written policy over non-cash adjustments that can be made to a customer account, including limitations on the amounts that can be adjusted as well as the approval process for such adjustments. We also recommend the District develop a formal review process over non-cash adjustments with an independent documented review. The adjustments, along with the approval and review, should be retained for audit.

Officials' Response:

In the future all non-cash adjustments will be approved by a superintendent before posting and presented to the Board of Trustees at regular intervals.



Dave Yost • Auditor of State

CARROLL WATER AND SEWER DISTRICT

OTTAWA COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
NOVEMBER 9, 2017**