



Dave Yost • Auditor of State

**TWIN CITY WATER AND SEWER DISTRICT
TUSCARAWAS COUNTY
DECEMBER 31, 2017 AND 2016**

TABLE OF CONTENTS

TITLE	PAGE
Independent Auditor's Report	1
Prepared by Management:	
Statement of Receipts, Disbursements and Changes in Fund Balances (Regulatory Cash Basis) – For the Year Ended December 31, 2017	3
Notes to the Financial Statement – December 31, 2017	5
Statement of Receipts, Disbursements and Changes in Fund Balances (Regulatory Cash Basis) – For the Year Ended December 31, 2016	13
Notes to the Financial Statement – December 31, 2016	15
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by <i>Government Auditing Standards</i>	23
Schedule of Findings.....	25
Prepared by Management:	
Summary Schedule of Prior Audit Findings	27

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Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT

Twin City Water and Sewer District
Tuscarawas County
308 Grant Street
Dennison, Ohio 44621

To the Board of Trustees:

Report on the Financial Statements

We have audited the accompanying financial statements of the cash balances, receipts and disbursements and related notes of the Twin City Water and Sewer District, Tuscarawas County, Ohio (the District), as of and for the years ended December 31, 2017 and 2016.

Management's Responsibility for the Financial Statements

Management is responsible for preparing and fairly presenting these financial statements in accordance with the financial reporting provisions Ohio Revised Code § 117.38 and Ohio Administrative Code § 117-2-03(D) permit; this responsibility includes designing, implementing and maintaining internal control relevant to preparing and fairly presenting financial statements free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

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

Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles

As described in Note 1 of the financial statements, the District prepared these financial statements using the accounting basis permitted by the financial reporting provisions of Ohio Revised Code § 117.38 and Ohio Administrative Code § 117-2-03(D), which is an accounting basis other than accounting principles generally accepted in the United States of America (GAAP), to satisfy these requirements.

Although the effects on the financial statements of the variances between the regulatory accounting basis and GAAP are not reasonably determinable, we presume they are material.

Though the District does not intend these statements to conform to GAAP, auditing standards generally accepted in the United States of America require us to include an adverse opinion on GAAP. However, the adverse opinion does not imply the amounts reported are materially misstated under the accounting basis Ohio Revised Code § 117.38 and Ohio Administrative Code § 117-2-03(D) permit. Our opinion on this accounting basis is in the *Opinion on Regulatory Basis of Accounting* paragraph below.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the *Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles* paragraph, the financial statements referred to above do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the District as of December 31, 2017 and 2016, and the respective changes in financial position or cash flows thereof for the years then ended.

Opinion on Regulatory Basis of Accounting

In our opinion, the financial statements referred to above present fairly, in all material respects, the cash balances, receipts and disbursements, and related notes of the Twin City Water and Sewer District, Tuscarawas County, Ohio as of December 31, 2017 and 2016, for the years then ended in accordance with the financial reporting provisions Ohio Revised Code § 117.38 and Ohio Administrative Code § 117-2-03(D) permit, described in Note 1.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated August 14, 2018, 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

August 14, 2018

Twin City Water and Sewer District
Tuscarawas County
Statement of Receipts, Disbursements and
Changes in Fund Balances (Regulatory Cash Basis)
For the Year Ended December 31, 2017

Operating Cash Receipts	
Charges for Services	\$3,567,542
Guarantee Deposits	7,650
	<u>7,650</u>
<i>Total Operating Cash Receipts</i>	<i>3,575,192</i>
	<u>3,575,192</u>
Operating Cash Disbursements	
Personal Services	847,248
Benefits	475,964
Berm Repairs	33,847
Utilities	371,382
Repairs	144,166
Supplies and Materials	123,002
Capital Outlay	354,587
Guarantee Deposits	5,850
Purchased Services	214,822
	<u>214,822</u>
<i>Total Operating Cash Disbursements</i>	<i>2,570,868</i>
	<u>2,570,868</u>
<i>Operating Income/(Loss)</i>	<i>1,004,324</i>
	<u>1,004,324</u>
Non-Operating Cash Receipts	
Intergovernmental Revenues	24,340
Interest	19,709
Other Non-Operating Revenues	197,298
	<u>197,298</u>
<i>Total Non-Operating Cash Receipts</i>	<i>241,347</i>
	<u>241,347</u>
Non-Operating Cash Disbursements	
Debt Service	762,548
Other Non-Operating Cash Disbursements	108,088
	<u>108,088</u>
<i>Total Non-Operating Cash Disbursements</i>	<i>870,636</i>
	<u>870,636</u>
<i>Net Receipts Over/(Under) Disbursements</i>	<i>375,035</i>
	<u>375,035</u>
Fund Cash Balances, January 1	3,989,677
	<u>3,989,677</u>
<i>Fund Cash Balances, December 31</i>	<i>\$4,364,712</i>
	<u>\$4,364,712</u>

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

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TWIN CITY WATER AND SEWER DISTRICT
TUSCARAWAS COUNTY

NOTES TO THE FINANCIAL STATEMENT
DECEMBER 31, 2017

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

A. Description of the Entity

The constitution and laws of the State of Ohio establish the rights and privileges for the Twin City Water and Sewer District, Tuscarawas County (the District), as a body corporate and politic. The District is directed by an appointed five-member Board of Trustees. Two Board members each are appointed by the City of Uhrichsville and the Village of Dennison. The remaining Board member is appointed at-large by the Board of Trustees. The District provides water and sewer services to residents of the District.

The District participates in the Public Entities Pool of Ohio, a public entity risk pool. Note 7 to the financial statement provide additional information for this entity. This organization is:

Public Entity Risk Pool:

A risk-sharing pool that provides property and casualty coverage for its members and assumes the risk of loss up to the limits of the District's policy.

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

B. Accounting Basis

These financial statements follow the accounting basis the Auditor of State prescribes or permits. This basis is similar to the cash receipts and disbursements accounting basis. The District recognizes receipts when received in cash rather than when earned, and recognizes disbursements when paid rather than when a liability is incurred. Budgetary presentations report budgetary expenditures when a commitment is made (i.e., when an encumbrance is approved).

These statements include adequate disclosure of material matters, as the financial reporting provisions of Ohio Revised Code § 117.38 and Ohio Administrative Code § 117-2-03 (D) permit.

C. Deposits and Investments

The District's accounting basis includes investments as assets. This basis does not record disbursements for investment purchases or receipts for investment sales. This basis records gains or losses at the time of sale as receipts or disbursements, respectively.

The investment in STAR Ohio (the State Treasurer's investment pool) is valued at amounts reported by the State Treasurer.

TWIN CITY WATER AND SEWER DISTRICT
TUSCARAWAS COUNTY

NOTES TO THE FINANCIAL STATEMENT
DECEMBER 31, 2017
(Continued)

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

D. Budgetary Process

The Ohio Revised Code requires the Board to budget annually.

1. Appropriations

Budgetary expenditures (that is, disbursements and encumbrances) may not exceed appropriations at the fund, object 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). Appropriations lapse at year end.

2. Estimated Resources

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

3. Encumbrances

The Ohio Revised Code requires the District to reserve (encumber) appropriations when commitments are made. Encumbrances outstanding at year end are carried over, and need not be reappropriated.

A summary of 2017 budgetary activity appears in Note 3.

E. Property, Plant and Equipment

The District records disbursements for acquisitions of property, plant and equipment when paid. The accompanying financial statements do not report these items as assets.

F. Accumulated Leave

In certain circumstances, such as upon leaving employment, employees are entitled to cash payment for unused leave. The financial statements do not include a liability for unpaid leave.

2. **DEPOSITS AND INVESTMENTS**

The District may invest in certificates of deposits, notes, bonds or other obligations of the United States, or any agency or instrumentality thereof, or in obligations of the State or any political subdivision thereof.

TWIN CITY WATER AND SEWER DISTRICT
TUSCARAWAS COUNTY

NOTES TO THE FINANCIAL STATEMENT
DECEMBER 31, 2017
(Continued)

2. EQUITY IN POOLED DEPOSITS AND INVESTMENTS (Continued)

The carrying amount of deposits and investments at December 31 was as follows:

	<u>2017</u>
Demand deposits	\$ 2,159,892
STAR Ohio	1,610,008
Cash with fiscal agent	<u>594,812</u>
Total deposits and investments	<u>\$ 4,364,712</u>

Deposits: Deposits are insured by the Federal Deposit Insurance Corporation or collateralized by securities specifically pledged by the financial institution to the District.

Investments: Investments in STAR Ohio are not evidenced by securities that exist in physical or book-entry form.

Cash with Fiscal Agent: At fiscal year end, the District had \$594,812 cash held by the fiscal agent, which cannot be identified as an investment or deposit. The funds are in an account under the name of Twin City Water & Sewer District, but administrated by Medical Benefits. (See Note 6 for additional information on Medical Benefits Administrators, Inc., third party administrator).

3. BUDGETARY ACTIVITY

Budgetary activity for the year ending December 31, 2017 follows:

<u>2017 Budgeted vs. Actual Receipts</u>		
<u>Budgeted</u> <u>Receipts</u>	<u>Actual</u> <u>Receipts</u>	<u>Variance</u>
<u>\$4,765,185</u>	<u>\$3,816,539</u>	<u>(\$948,646)</u>

<u>2017 Budgeted vs. Actual Budgetary Basis Expenditures</u>		
<u>Appropriation</u> <u>Authority</u>	<u>Budgetary</u> <u>Expenditures</u>	<u>Variance</u>
<u>\$5,728,004</u>	<u>\$3,441,504</u>	<u>\$2,286,500</u>

**TWIN CITY WATER AND SEWER DISTRICT
TUSCARAWAS COUNTY**

**NOTES TO THE FINANCIAL STATEMENT
DECEMBER 31, 2017
(Continued)**

4. DEBT

Debt outstanding at December 31, 2017 was as follows:

	Principal	Interest Rate
USDA FMHA Loans		
Uhrichsville Dennison No. 91-10	\$ 820,000	5%
Midvale No. 92-03	305,000	6.125%
Midvale No. 92-05	176,000	6%
Midvale No. 92-07	167,000	6.25%
Midvale No. 92-08	37,000	6%
Total	1,505,000	
 Ohio Environmental Protection Agency Loans		
CS392655-02 - Reline Trunk	764,544	1%
CS391442-0004 - Sludge Press	127,934	1%
FS391442-0008 - Well/Well fields	3,676,375	0%
CS391442-0010 - 6 th St. LS *	1,655,668	1%
FS391442-0012 - Transmission Line *	808,983	1.57%
Total	7,033,504	
 Ohio Public Works Commission Loans		
Loan CN31P - UV	237,878	0%
Total	237,878	
 USDA Sewer System Revenue Bonds		
Loan No. 92-16	2,228,000	4.5%
Total	2,228,000	
 Grand Total	 \$ 11,004,382	

* - An amortization schedule is not yet available for this loan

Debt relating to the United States Department of Agriculture Farmers Home Administration (USDA FMHA) loans, Ohio Environmental Protection Agency loans and Ohio Public Works Commission (OPWC) loans were incurred for utility construction projects. Property owned by the District and revenue earned by the District has been pledged to repay these debts.

Of the Farmers Home Administration Loans, the Midvale Sewer Improvement Project Loan Nos. 92-07 and 92-08, are being reimbursed to the District by Tuscarawas County, as set forth in an agreement with the County.

The District issued USDA Sewer System Revenue Bonds in September 2001 in the amount of \$2,828,000 to finance improvements at the wastewater treatment plant, which were mandated by the Ohio EPA.

The District was approved for a \$1,529,660 loan from the Ohio Environmental Protection Agency to reline the trunk sewer line in 2006.

**TWIN CITY WATER AND SEWER DISTRICT
TUSCARAWAS COUNTY**

**NOTES TO THE FINANCIAL STATEMENT
DECEMBER 31, 2017
(Continued)**

4. DEBT (Continued)

The District also received \$383,411, loan (#CS391442-0004) from the Ohio Environmental Protection Agency for a rotary fan sludge press project in 2010.

The District was approved for a \$4,244,156, loan (#FS391442-0008) from the Ohio Environmental Protection Agency to construct a new well water treatment plant in 2012. The loan is to be repaid over 30 years at 0% interest, using water service charges.

The District was awarded a loan (#CN31P) in 2012 in the amount of \$299,000 from the Ohio Public Works Commission for the installation of an ultraviolet disinfection system. Revenue earned by the District has been pledged to repay this debt over 20 years, at 0% interest.

In 2013, the District was approved for a loan (#CS391442-0010) in the amount of \$1,867,874 from the Ohio Environmental Protection Agency to replace equipment of the 6th Street lift station to prevent sewage overflows during wet-weather events. The loan is to be repaid over 20 years, at an interest rate of 1%, using wastewater service charges. At December 31, 2017, the project is complete. An amortization schedule has not yet been determined for this obligation. Loan proceeds received in 2017 was \$0.

In 2015, the District was approved for a loan, (#FS391442-0012) in the amount of \$1,237,430 from the Ohio Environmental Protection Agency for the installation of a transmission main line between the new well water treatment plant and storage tank. The loan is to be repaid over 30 years, at an interest rate of 1.57%, using water service charges. As of December 31, 2017, the project is complete. An amortization schedule has not yet been determined for this obligation. Loan proceeds received in 2017 was \$0.

Amortization of the aforementioned debt, including interest, is scheduled as follows:

Year ending December 31:	USDA Sewer System Revenue Bonds	USDA FMHA Loans	OhioEPA Loans	OPWC Loans
2018	\$ 154,260	\$216,899	\$ 236,481	\$ 14,417
2019	153,830	215,665	236,481	14,417
2020	153,310	218,110	236,481	14,417
2021	153,700	218,000	236,481	14,417
2022	153,955	217,445	236,481	14,417
2023-2027	768,055	831,031	1,140,122	72,084
2028-2032	768,415	40,500	738,553	72,084
2033-2037	768,725	0	706,995	21,625
2038-2042	614,360	0	706,995	0
2043-2047	<u>0</u>	<u>0</u>	<u>141,399</u>	<u>0</u>
Total	<u>\$3,688,610</u>	<u>\$1,957,650</u>	<u>\$4,616,469</u>	<u>\$237,878</u>

TWIN CITY WATER AND SEWER DISTRICT
TUSCARAWAS COUNTY

NOTES TO THE FINANCIAL STATEMENT
DECEMBER 31, 2017
(Continued)

5. **RETIREMENT SYSTEM**

The District's full-time employees belong to the Ohio Public Employees Retirement System (OPERS). OPERS is a cost-sharing, multiple-employer plan. The Ohio Revised Code prescribes the Plan's retirement benefits, including postretirement healthcare and survivor and disability benefits to participants.

The Ohio Revised code also prescribes contribution rates. For 2017, OPERS members contributed 10% of their gross salaries and the District contributed an amount equaling 14% of participants' gross salaries. The District has paid all contributions required through December 31, 2017.

6. **POSTEMPLOYMENT BENEFITS**

OPERS offers cost-sharing, multiple-employer defined benefit postemployment plans, which include 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. The portion of employer contributions allocated to health care for members in the Traditional Pension Plan and Combined Plan was 2.0 percent during calendar year 2016, and 1.0 percent during calendar year 2017.

7. **RISK MANAGEMENT**

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

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

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

Casualty and Property Coverage

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

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

Financial Position

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

TWIN CITY WATER AND SEWER DISTRICT
TUSCARAWAS COUNTY

NOTES TO THE FINANCIAL STATEMENT
DECEMBER 31, 2017
(Continued)

7. RISK MANAGEMENT (Continued)

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

At December 31, 2017 the liabilities above include approximately \$11.8 million of estimated incurred claims payable. The assets above also include approximately \$11.2 million of unpaid claims to be billed. The Pool's membership increased to 527 members in 2017. These amounts will be included in future contributions from members when the related claims are due for payment. As of December 31, 2017, the District's share of these unpaid claims collectible in future years is approximately \$39,000.

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

2017 Contributions to PEP
\$ 61,358

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.

Self Insurance

The District is also self-insured for employee health insurance. The District pays a premium, determined annually, by Medical Benefits Administrators, Inc., its third party self-insurance administrator. The Self Insurance Fund pays covered claims to service providers, and any remaining funds are held in a Money Market Account by Medical Benefits Administrators, Inc. as a reserve to be used for future claims.

8. CONTINGENT LIABILITIES

Amounts grantor agencies pay to the District are subject to audit and adjustment by the grantor. The grantor may require refunding any disallowed costs. Management cannot presently determine amounts grantors may disallow. However, based on prior experience, management believes any refunds would be immaterial.

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Twin City Water and Sewer District
Tuscarawas County
Statement of Receipts, Disbursements and
Changes in Fund Balances (Regulatory Cash Basis)
For the Year Ended December 31, 2016

Operating Cash Receipts	
Charges for Services	\$3,527,019
Guarantee Deposits	6,850
	<u>3,533,869</u>
<i>Total Operating Cash Receipts</i>	
Operating Cash Disbursements	
Personal Services	859,473
Benefits	472,027
Berm Repairs	24,561
Utilities	376,918
Repairs	188,035
Supplies and Materials	114,239
Capital Outlay	766,530
Guarantee Deposits	6,025
Purchased Services	187,076
	<u>2,994,884</u>
<i>Total Operating Cash Disbursements</i>	
<i>Operating Income/(Loss)</i>	
	<u>538,985</u>
Non-Operating Cash Receipts	
Intergovernmental Revenues	187,422
Proceeds of Loans	421,342
Interest	11,200
Other Non-Operating Revenues	184,188
	<u>804,152</u>
<i>Total Non-Operating Cash Receipts</i>	
Non-Operating Cash Disbursements	
Debt Service	1,043,067
Other Non-Operating Cash Disbursements	201,259
	<u>1,244,326</u>
<i>Total Non-Operating Cash Disbursements</i>	
<i>Net Receipts Over/(Under) Disbursements</i>	
	<u>98,811</u>
Fund Cash Balances, January 1	<u>3,890,866</u>
<i>Fund Cash Balances, December 31</i>	<u>\$3,989,677</u>

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

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TWIN CITY WATER AND SEWER DISTRICT
TUSCARAWAS COUNTY

NOTES TO THE FINANCIAL STATEMENT
DECEMBER 31, 2016

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

A. Description of the Entity

The constitution and laws of the State of Ohio establish the rights and privileges for the Twin City Water and Sewer District, Tuscarawas County (the District), as a body corporate and politic. The District is directed by an appointed five-member Board of Trustees. Two Board members each are appointed by the City of Uhrichsville and the Village of Dennison. The remaining Board member is appointed at-large by the Board of Trustees. The District provides water and sewer services to residents of the District.

The District participates in the Public Entities Pool of Ohio, a public entity risk pool. Note 7 to the financial statement provides additional information for this entity. This organization is:

Public Entity Risk Pool:

A risk-sharing pool that provides property and casualty coverage for its members and assumes the risk of loss up to the limits of the District's policy.

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

B. Accounting Basis

These financial statements follow the accounting basis the Auditor of State prescribes or permits. This basis is similar to the cash receipts and disbursements accounting basis. The District recognizes receipts when received in cash rather than when earned, and recognizes disbursements when paid rather than when a liability is incurred. Budgetary presentations report budgetary expenditures when a commitment is made (i.e., when an encumbrance is approved).

These statements include adequate disclosure of material matters, as the financial reporting provisions of Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03 (D) permit.

C. Deposits and Investments

The District's accounting basis includes investments as assets. This basis does not record disbursements for investment purchases or receipts for investment sales. This basis records gains or losses at the time of sale as receipts or disbursements, respectively.

The investment in STAR Ohio (the State Treasurer's investment pool) is valued at amounts reported by the State Treasurer.

TWIN CITY WATER AND SEWER DISTRICT
TUSCARAWAS COUNTY

NOTES TO THE FINANCIAL STATEMENT
DECEMBER 31, 2016
(Continued)

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

D. Budgetary Process

The Ohio Revised Code requires the Board to budget annually.

1. Appropriations

Budgetary expenditures (that is, disbursements and encumbrances) may not exceed appropriations at the fund, object 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). Unencumbered appropriations lapse at year end.

2. Estimated Resources

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

3. Encumbrances

The Ohio Revised Code requires the District to reserve (encumber) appropriations when commitments are made. Encumbrances outstanding at year end are carried over, and need not be reappropriated.

A summary of 2016 budgetary activity appears in Note 3.

E. Property, Plant and Equipment

The District records disbursements for acquisitions of property, plant and equipment when paid. The accompanying financial statements do not report these items as assets.

F. Accumulated Leave

In certain circumstances, such as upon leaving employment, employees are entitled to cash payment for unused leave. The financial statements do not include a liability for unpaid leave.

2. **DEPOSITS AND INVESTMENTS**

The District may invest in certificates of deposits, notes, bonds or other obligations of the United States, or any agency or instrumentality thereof, or in obligations of the State or any political subdivision thereof.

TWIN CITY WATER AND SEWER DISTRICT
TUSCARAWAS COUNTY

NOTES TO THE FINANCIAL STATEMENT
DECEMBER 31, 2016
(Continued)

2. DEPOSITS AND INVESTMENTS (Continued)

The carrying amount of deposits and investments at December 31 was as follows:

	<u>2016</u>
Demand deposits	\$ 1,866,613
STAR Ohio	1,592,929
Cash with fiscal agent	<u>530,135</u>
Total deposits and investments	<u>\$ 3,989,677</u>

Deposits: Deposits are insured by the Federal Deposit Insurance Corporation or collateralized by securities specifically pledged by the financial institution to the District.

Investments: Investments in STAR Ohio are not evidenced by securities that exist in physical or book-entry form.

Cash with Fiscal Agent: At fiscal year end, the District had \$530,135 cash held by the fiscal agent, which cannot be identified as an investment or deposit. The funds are in an account under the name of Twin City Water & Sewer District, but administrated by Medical Benefits. (See Note 6 for additional information on Medical Benefits Administrators, Inc., third party administrator).

3. BUDGETARY ACTIVITY

Budgetary activity for the year ending December 31, 2016 follows:

<u>2016 Budgeted vs. Actual Receipts</u>		
<u>Budgeted</u> <u>Receipts</u>	<u>Actual</u> <u>Receipts</u>	<u>Variance</u>
<u>\$5,627,855</u>	<u>\$4,338,021</u>	<u>(\$1,289,834)</u>

<u>2016 Budgeted vs. Actual Budgetary Basis Expenditures</u>		
<u>Appropriation</u> <u>Authority</u>	<u>Budgetary</u> <u>Expenditures</u>	<u>Variance</u>
<u>\$6,626,529</u>	<u>\$4,239,210</u>	<u>\$2,387,319</u>

TWIN CITY WATER AND SEWER DISTRICT
TUSCARAWAS COUNTY

NOTES TO THE FINANCIAL STATEMENT
DECEMBER 31, 2016
(Continued)

4. DEBT

Debt outstanding at December 31, 2016 was as follows:

	<u>Principal</u>	<u>Interest Rate</u>
USDA FMHA Loans		
Uhrichsville Dennison No. 91-10	\$ 902,000	5%
Midvale No. 92-03	327,000	6.125%
Midvale No. 92-05	189,000	6%
Midvale No. 92-07	176,000	6.25%
Midvale No. 92-08	<u>39,000</u>	6%
Total	1,633,000	
Ohio Environmental Protection Agency Loans		
CS392655-02	840,888	1%
CS391442-0004	137,105	1%
FS391442-0008	3,817,774	0%
CS391442-0010 *	1,742,125	1%
FS391442-0012 *	<u>832,127</u>	1.57%
Total	7,370,019	
Ohio Public Works Commission Loans		
Loan CN31P	<u>252,295</u>	0%
Total	252,295	
USDA Sewer System Revenue Bonds		
Total	<u>2,279,000</u>	4.5%
	<u>2,279,000</u>	
Grand Total	<u>\$ 11,534,314</u>	

* - An amortization schedule is not yet available for this loan.

Debt relating to the United States Department of Agriculture Farmers Home Administration (USDA FMHA) loans, Ohio Environmental Protection Agency loans and Ohio Public Works Commission (OPWC) loans were incurred for utility construction projects. Property owned by the District and revenue earned by the District has been pledged to repay these debts.

Of the Farmers Home Administration Loans, the Midvale Sewer Improvement Project Loan Nos. 92-07 and 92-08, are being reimbursed to the District by Tuscarawas County, as set forth in an agreement with the County.

The District issued USDA Sewer System Revenue Bonds in September 2001 in the amount of \$2,828,000 to finance improvements at the wastewater treatment plant, which were mandated by the Ohio EPA.

The District was approved for a \$1,529,660 loan from the Ohio Environmental Protection Agency to reline the trunk sewer line in 2006.

**TWIN CITY WATER AND SEWER DISTRICT
TUSCARAWAS COUNTY**

**NOTES TO THE FINANCIAL STATEMENT
DECEMBER 31, 2016
(Continued)**

4. DEBT (Continued)

The District also received \$383,411, loan (#CS391442-0004) from the Ohio Environmental Protection Agency for a rotary fan sludge press project in 2010.

The District was approved for a \$4,244,156, loan (#FS391442-0008) from the Ohio Environmental Protection Agency to construct a new well water treatment plant in 2012. The loan is to be repaid over 30 years at 0% interest, using water service charges.

The District was awarded a loan (#CN31P) in 2012 in the amount of \$299,000 from the Ohio Public Works Commission for the installation of an ultraviolet disinfection system. Revenue earned by the District has been pledged to repay this debt over 20 years, at 0% interest.

In 2013, the District was approved for a loan (#CS391442-0010) in the amount of \$1,867,874 from the Ohio Environmental Protection Agency to replace equipment of the 6th Street lift station to prevent sewage overflows during wet-weather events. The loan is to be repaid over 20 years, at an interest rate of 1%, using wastewater service charges. At December 31, 2016, the project is complete. An amortization schedule has not yet been determined for this obligation. Loan proceeds received during 2016 totaled \$113,853.

In 2015, the District was approved for a loan, (#FS391442-0012) in the amount of \$1,237,430 from the Ohio Environmental Protection Agency for the installation of a transmission main line between the new well water treatment plant and storage tank. The loan is to be repaid over 30 years, at an interest rate of 1.57%, using water service charges. As of December 31, 2016, the project is complete. An amortization schedule has not yet been determined for this obligation. Loan proceeds received during 2016 totaled \$307,489.

Amortization of the aforementioned debt, including interest, is scheduled as follows:

Year ending December 31:	USDA Sewer System	USDA FMHA Loans	OhioEPA Loans	OPWC Loans
	Revenue Bonds			
2017	\$153,555	\$217,809	\$236,481	\$ 14,417
2018	154,260	216,899	236,481	14,417
2019	153,830	215,665	236,481	14,417
2020	153,310	218,110	236,481	14,417
2021	153,700	218,000	236,481	14,417
2022-2026	768,760	957,613	1,182,403	72,084
2027-2031	767,945	140,084	791,353	72,084
2032-2036	768,070	0	706,995	36,042
2037-2041	768,735	0	706,995	0
2042-2046	<u>0</u>	<u>0</u>	<u>282,798</u>	<u>0</u>
Total	<u>\$3,842,165</u>	<u>\$2,184,180</u>	<u>\$4,852,949</u>	<u>\$252,295</u>

TWIN CITY WATER AND SEWER DISTRICT
TUSCARAWAS COUNTY

NOTES TO THE FINANCIAL STATEMENT
DECEMBER 31, 2016
(Continued)

5. **RETIREMENT SYSTEM**

The District's full-time employees belong to the Ohio Public Employees Retirement System (OPERS). OPERS is a cost-sharing, multiple-employer plan. The Ohio Revised Code prescribes the Plan's retirement benefits, including postretirement healthcare and survivor and disability benefits to participants.

The Ohio Revised code also prescribes contribution rates. For 2016, OPERS members contributed 10% of their gross salaries and the District contributed an amount equaling 14% of participants' gross salaries. The District has paid all contributions required through December 31, 2016.

6. **POSTEMPLOYMENT BENEFITS**

OPERS offers cost-sharing, multiple-employer defined benefit postemployment plans, which include 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. The portion of employer contributions allocated to health care for members in the Traditional Pension Plan and Combined Plan was 2.0 percent during calendar year 2016.

7. **RISK MANAGEMENT**

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

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

The District belongs to the Public Entities Pool of Ohio (PEP), a risk-sharing pool available to Ohio local governments. PEP provides property and casualty coverage for its members. York Insurance Services Group, Inc. (York) functions as the administrator of PEP and provides underwriting, claims, loss control, risk management, and reinsurance services for PEP. PEP is a member of the American Public Entity Excess Pool (APEEP), which is also administered by York.

Member governments pay annual contributions to fund PEP. PEP pays judgments, settlements and other expenses resulting from covered claims that exceed the members' deductibles.

Casualty and Property Coverage

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

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

TWIN CITY WATER AND SEWER DISTRICT
TUSCARAWAS COUNTY

NOTES TO THE FINANCIAL STATEMENT
DECEMBER 31, 2016
(Continued)

7. RISK MANAGEMENT (Continued)

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.

	<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 District's share of these unpaid claims collectible in future years is approximately \$39,000.

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

2016 Contributions to PEP

\$ 61,658

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.

Self Insurance

The District is also self-insured for employee health insurance. The District pays a premium, determined annually, by Medical Benefits Administrators, Inc., its third party self-insurance administrator. The Self Insurance Fund pays covered claims to service providers, and any remaining funds are held in a Money Market Account by Medical Benefits Administrators, Inc. as a reserve to be used for future claims.

8. CONTINGENT LIABILITIES

Amounts grantor agencies pay to the District are subject to audit and adjustment by the grantor. The grantor may require refunding any disallowed costs. Management cannot presently determine amounts grantors may disallow. However, based on prior experience, management believes any refunds would be immaterial.

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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

Twin City Water and Sewer District
Tuscarawas County
308 Grant Street
Dennison, Ohio 44621

To the Board of Trustees:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the cash balances, receipts, and disbursements of the Twin City Water and Sewer District, Tuscarawas County, Ohio (the District), as of and for the years ended December 31, 2017 and 2016, and the related notes to the financial statements, and have issued our report thereon dated August 14, 2018, wherein we noted the District followed financial reporting provisions Ohio Revised Code § 117.38 and Ohio Administrative Code § 117-2-03(D) permit.

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. We did identify a certain deficiency in internal control, described in the accompanying Schedule of Findings that we consider a material weakness. We consider finding 2017-001 to be a material weakness.

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*.

District's Response to the Finding

The District's response to the finding identified in our audit is described in the accompanying Schedule of Findings. We did not subject the District's response to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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



Dave Yost
Auditor of State
Columbus, Ohio

August 14, 2018

**TWIN CITY WATER AND SEWER DISTRICT
TUSCARAWAS COUNTY**

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

FINDING RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS

FINDING NUMBER 2017-001

Material Weakness

In our audit engagement letter, as required by AU-C Section 210, Terms of Engagement, paragraph .06, management acknowledged its responsibility for the preparation and fair presentation of their financial statements; this responsibility includes designing, implementing and maintaining internal control relevant to preparing and fairly presenting financial statements free from material misstatement, whether due to fraud or error as discussed in AU-C Section 210 paragraphs .A14 & .A16.

The District should maintain an accounting system and accounting records sufficient to enable the District to identify, assemble, analyze, classify, record and report its transactions, maintain accountability for the related assets, document compliance with finance-related legal and contractual requirements and prepare financial statements.

The District did not always record receipts and disbursements into accurate classifications on the financial statements.

The following significant errors were noted in 2017:

- Expenditures of the Water Operating Fund in the amount of \$40,808 posted to Supplies and Materials should have been posted to Purchased Services.
- Expenditures of the Sewer Operating Fund in the amount of \$37,554 posted to Supplies and Materials should have been posted to Purchased Services.
- Expenditures in the Infrastructure Fund in the amount of \$87,856 posted to Capital Outlay should have been posted to Repairs.
- Expenditures in various District funds were posted to Supplies and Materials and Capital Outlay in the amounts of \$15,108 and \$19,314, respectively, but should have been posted to Purchased Services and Repairs in the amounts of \$32,519 and \$1,903.

The following significant errors were noted in 2016:

- Ohio Water Development Authority (OWDA) principal forgiveness of \$91,926 for OWDA loan #7030 should have been posted as an Intergovernmental receipt and Debt Service expenditure in the EPA Trans Line Debt Service Fund.
- OWDA Grant of \$70,473 was posted to Proceeds of Loans instead of Intergovernmental in the EPA Trans Line Debt Service Fund.
- Expenditures of the Water Operating Fund in the amount of \$47,530 posted to Supplies and Materials should have been posted to Purchased Services.
- Expenditures of the Sewer Operating Fund in the amount of \$39,772 posted to Supplies and Materials should have been posted to Purchased Services.
- Expenditures in the Infrastructure Fund in the amount of \$113,442 posted to Capital Outlay should have been posted to Repairs.
- Expenditures in various District funds were posted to Supplies and Materials and Capital Outlay in the amounts of \$11,936 and \$21,525, respectively, but should have been posted to Purchased Services and Repairs in the amounts of \$19,422 and \$14,039.

The reclassifications noted above, with which management agrees, have been made and are reflected in the accompanying financial statements.

**TWIN CITY WATER AND SEWER DISTRICT
TUSCARAWAS COUNTY**

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

<p>FINDING RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)</p>
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**FINDING NUMBER 2017-001
(Continued)**

Material Weakness (Continued)

Not properly reporting financial activity could result in material misstatements occurring and remaining undetected and management may not be provided an accurate picture of the District's financial position and operations.

The District should take the necessary steps to ensure that all receipts and expenditures are properly presented and disclosed in the District's financial statements.

Officials' Response:

The District will correctly record all future Purchased Services, Capital Outlay and Repairs and Maintenance to the accurate classifications on the financial statements.

The District will correctly post any future principal forgiveness and/or grant proceeds as intergovernmental receipts on the financial statements.

Twin City Water & Sewer District

308 GRANT STREET
DENNISON, OHIO 44621

PHONE (740) 922-1460
FAX (740) 922-2813

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS DECEMBER 31, 2017 AND 2016

Finding Number	Finding Summary	Status	Additional Information
2015-001	Material Weakness for improper posting of receipts and disbursements.	Not Corrected	<p>The District will correctly post any future principal forgiveness and/or grant proceeds as intergovernmental receipts, not as loan proceeds.</p> <p>The District will correctly post principal forgiveness payments along with related debt disbursements for future projects.</p>

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TWIN CITY WATER AND SEWER DISTRICT

TUSCARAWAS COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
AUGUST, 30 2018**