



Dave Yost • Auditor of State

**VALLEY VIEW WATER AND SEWER DISTRICT
MONTGOMERY COUNTY**

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Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT

Valley View Water and Sewer District
Montgomery County
12102 State Route 725 West
Germantown, OH 45327

To the Board of Trustees:

Report on the Financial Statements

We were engaged to audit the accompanying financial statements and related notes of Valley View Water and Sewer District, Montgomery County, (the District) as of and for the years ended December 31, 2013 and 2012.

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 Section 117.38 and Ohio Administrative Code Section 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 express an opinion on these financial statements based on conducting the audit in accordance with auditing standards generally accepted in the United States of America. Because of the matters described in the Basis for Disclaimer of Opinion paragraph, however, we were not able to obtain sufficient appropriate audit evidence to provide an audit opinion.

Basis for Disclaimer of Opinion

The cash receipts and disbursements in the accompanying financial statements for the years ended December 31, 2013 and 2012 could not be reconciled to the District's supporting accounting records. We were unable to obtain sufficient and appropriate audit evidence to determine the accuracy of the financial statement classifications of revenues or disbursements as the financial statements did not follow the same expenditure classification structure as the supporting accounting records. In addition, the financial statements included cash transactions outside the reporting period.

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

The effects on the financial statements of the variances between the regulatory basis of accounting described in Note 1B and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

Disclaimer of Opinion

Because of the significance of the matters described in the Basis for Disclaimer of Opinion paragraph, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, we do not express an opinion on these financial statements.

Emphasis of Matter

The accompanying financial statements have been prepared assuming that the District will continue as a going concern. As discussed in Note 7C to the financial statements, the District plans to dissolve, was unable to begin operations, did not meet an obligation for debt principal, and has a net position deficiency, raising substantial doubt about its ability to continue as a going concern. Note 7D describes Management's plans regarding these matters. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. We did not modify our opinion regarding this matter.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 30, 2014, 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

December 30, 2014

**VALLEY VIEW WATER AND SEWER DISTRICT
MONTGOMERY COUNTY**

**STATEMENT OF RECEIPTS, DISBURSEMENTS
AND CHANGES IN FUND BALANCES (CASH BASIS)
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012**

	2013	2012
Operating Cash Receipts:		
Service Charge Revenues	\$0	\$0
Total Operating Cash Receipts	0	0
Operating Cash Disbursements:		
Legal Fees		2,405
Accounting Fees	4,564	720
Insurance	1,703	3,200
Capital Outlay - Engineering	73,955	40,345
Capital Outlay - Legal	93,504	194,378
Capital Outlay - Equipment		645
Capital Outlay - Contractors		30,600
Capital Outlay - Loan Fees		1,811
License and Permit Fees	4,017	
Office Expense	638	561
Mileage	343	
Advertising		17
Total Operating Cash Disbursements	178,724	274,682
Operating Cash Receipts (Under) Operating Cash Disbursements	(178,724)	(274,682)
Non-Operating Cash Receipts:		
Proceeds of Township Loans		121,550
Proceeds of Bank Loan	75,000	300,000
Total non-operating cash receipts	75,000	421,550
Net Receipts Over/(Under) Disbursements	(103,724)	146,868
Cash Balances, January 1	146,868	
Cash Balances, December 31	\$43,144	\$146,868

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

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**VALLEY VIEW WATER AND SEWER DISTRICT
MONTGOMERY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012**

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 Valley View Water and Sewer District (the District), Montgomery County as a body corporate and politic. There are five Board Members. Each political subdivision within the District appoints one member to the Board of Trustees to direct the District. There are: Trustee 1 from German Township and Trustee 2 from Jackson Township. These two trustees select the following trustees: 3 (a resident of German Township), 4 (a resident of Jackson Township), and 5 (a resident of either German or Jackson township). The District adopts a resolution and a roll call vote to approve the District Trustees. The process is repeated to fill any Board vacancies. Subdivisions within the District are German Township and Jackson Township. The Common Pleas Court's final order permits the District to provide water and sewer services to residents of the District. As of this audit period, the District's concentration is limited to providing safe, fresh, and potable water.

The District does not participate in any jointly governed organizations, joint ventures, and/or public entity risk pools and is not associated with related organizations.

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 permitted by the financial reporting provisions of Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D). This basis is similar to the cash receipts and disbursements accounting basis. The Board 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 only maintains a checking account.

D. Budgetary Process

The Ohio Revised Code requires the Board to budget annually.

1. Appropriations

Budgetary expenditures may not exceed the appropriations at the function level of control, and appropriations may not exceed estimated resources. 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.

**VALLEY VIEW WATER AND SEWER DISTRICT
MONTGOMERY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 re-appropriated. The District did not use the encumbrance method of accounting.

A summary of 2013 and 2012 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.

2. EQUITY IN POOLED DEPOSITS

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

	2013	2012
Demand deposits	\$43,144	\$146,868
Total deposits	43,144	146,868

Deposits: Deposits are insured by the Federal Depository Insurance Corporation (FDIC).

3. BUDGETARY ACTIVITY

Budgetary activity for the years ending December 31, 2013 and 2012 follows:

2013 Budgeted vs. Actual Receipts		
Budgeted Receipts	Actual Receipts	Variance
\$0	\$75,000	\$75,000

2013 Budgeted vs. Actual Budgetary Basis Expenditures		
Appropriation Authority	Budgetary Expenditures	Variance
\$300,000	\$178,724	\$121,276

2012 Budgeted vs. Actual Receipts		
Budgeted Receipts	Actual Receipts	Variance
\$0	\$421,550	\$421,550

2012 Budgeted vs. Actual Budgetary Basis Expenditures		
Appropriation Authority	Budgetary Expenditures	Variance
\$300,000	\$274,682	\$25,318

The above actual receipts and budgetary expenditures agree to the accompanying financial statements, but they do not agree to the underlying accounting records.

**VALLEY VIEW WATER AND SEWER DISTRICT
MONTGOMERY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012
(Continued)**

3. BUDGETARY ACTIVITY (Continued)

The District did not prepare the certificate of estimated resources required by 5705.36 in 2012 or 2013. Additionally, in 2013, the District reissued the appropriations of \$300,000 issued in 2012, which exceeded the beginning available fund balance in the District's bank account by \$153,132, in violation of 5705.28. These appropriations additionally exceeded actual receipts (\$75,000) and beginning available cash balance (\$146,868) for the fiscal year by \$78,132.

4. DEBT

Debt outstanding at December 31, 2013 was as follows:

	Principal	Interest Rate
German Township Loan	\$121,550	0%
First Nat'l. Bank of Germantown	300,000	2.5%
First Nat'l. Bank of Germantown	75,000	2.5%
Total	\$496,550	

The District obtained a start-up loan from German Township on April 11, 2011 to assist with the costs necessary to begin the formation of the District. The terms of the loan allowed for German Township to expend funds on behalf of the District, with the District responsible for repayment of the funds after services are established. To date, German Township has expended \$121,550 under this agreement. \$14,258 was expended under this agreement during the period 1/1/12-12/31/13.

On May 14, 2012, the District issued \$300,000 in revenue notes. The notes accrue interest annually at a rate of 2.5%. The First National Bank of Germantown is the sole purchaser of the notes. The notes mature on May 14, 2015.

On October 28, 2013, the District issued \$75,000 in revenue notes. The notes accrue interest annually at a rate of 2.5%. The First National Bank of Germantown is the sole purchaser of the notes. The notes mature on October 28, 2014.

5. RISK MANAGEMENT

The District is exposed to various risks of loss due to torts, theft of, damage to, and destruction of assets, errors and omissions; injuries to employees, and natural disasters. The District contracts with McGowan Governmental U W for all their risk management needs. There were no claims or settlements during the audit period.

6. CONTINGENT LIABILITIES

At December 31, 2013 the District was not a defendant in any lawsuit and had not received any grants.

7. SUBSEQUENT EVENTS

A. Bank Note Extension

The District did not make the \$75,000 principal payment due on October 28, 2014. On October 28, 2014 the District and the First National Bank of Germantown amended the provisions of the original note to extend the maturity date to May 14, 2015 and provide for interest payments due on the original note payable on October 28, 2014 and at maturity.

**VALLEY VIEW WATER AND SEWER DISTRICT
MONTGOMERY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012
(Continued)**

7. SUBSEQUENT EVENTS (Continued)

B. OWDA Loan

The District Trustees applied to the Ohio Water Development Authority (OWDA) for long term financing for the Eby Road Waterline Construction, operating monies, a partial bank loan pay-down, and a contingency amount. The agency approved a thirty year loan at 1%. The loan currently carries a balance of \$5,825.

C. Going Concern

The District has exhausted nearly all of its funds. The bank carrying amount on October 31, 2014 is \$1,243. There are claims against the District from CESO, Albers and Albers – Attorneys at law, the District Fiscal Officer, and the Auditor of State. Other charges will be incurred as the District seeks to dissolve. Those charges may include, but are not limited to, additional legal counsel billings, additional Fiscal Officer billings, and final audit billings.

D. Management's Plan Regarding Going Concern

The District Trustees are meeting on a regular basis with a priority given to dissolving the District and a secondary concern that there are residents still with a need for water.

The first District priority is to secure legal counsel to lawfully direct the dissolving of the District. Without funds available to retain counsel the District has been stalled. There have been emailed communications that at least one Township partner is considering some funding support.

Management has expressed concern for the District citizens, the local bank, the outstanding financial claims, and the timely dissolution of the District.

8. NONCOMPLIANCE

The District did not maintain the required accounting and budgetary records.

The District did not retain all documents.



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*

Valley View Water and Sewer District
Montgomery County
12102 State Route 725 West
Germantown, OH 45327

To the Board of Trustees:

We were engaged to audit the financial statements of the Valley View Water and Sewer District, Montgomery County, (the District) as of and for the years ended December 31, 2013 and 2012, and the related notes to the financial statements and have issued our report thereon dated December 30, 2014 wherein we noted the District followed financial reporting provisions Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D) permit. We disclaimed our opinion on the financial statements because we were not able to obtain sufficient appropriate audit evidence to support an audit opinion. We also noted that there are conditions and events that cause substantial doubt about the entity's ability to continue as a going concern.

Internal Control Over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Therefore, unidentified material weaknesses or significant deficiencies may exist. However, as described in the accompanying schedule of findings we identified certain deficiencies in internal control over financial reporting, that we consider material weaknesses.

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 a 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. We consider findings 2013-001, 2013-005 and 2013-006 described in the accompanying schedule of findings to be material weaknesses.

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 instances of noncompliance or other matters we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2013-001 through 2013-004.

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

December 30, 2014

**VALLEY VIEW WATER AND SEWER DISTRICT
MONTGOMERY COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2013 AND 2012**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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FINDING NUMBER 2013-001

Noncompliance Citation and Material Weakness

Ohio Admin. Code §117-2-02 states:

- (A) All local public offices shall maintain an accounting system and accounting records sufficient to enable the public office to identify, assemble, analyze, classify, record and report its transactions, maintain accountability for the related assets (and liabilities, if generally accepted accounting principles apply), document compliance with finance-related legal and contractual requirements and prepare financial statements required by rule 117-2-03 of the Administrative Code.
- (B) The management of each local public office is responsible for the assertions underlying the information in the public office's financial statements. The accounting system should assure that the following five assertions are achieved for all transaction types and account balances applicable to the local public office's operations, considering the basis of accounting applicable to it:
 - (1) Existence/occurrence: That recorded assets (and liabilities, if generally accepted accounting principles apply) exist as of fiscal year end, recorded transactions have occurred and are not fictitious.
 - (2) Completeness: That all account balances and transactions that should be included in the financial records are included.
 - (3) Rights and obligations: That recorded assets are rights of the public office and recorded liabilities (if generally accepted accounting principles apply), are obligations of the public office at the fiscal year end.
 - (4) Valuation/allocation: That generally accepted accounting measurement and recognition principles are properly selected and applied. This includes accounting measurement and recognition principles prescribed by the auditor of state for public offices that are not required to follow generally accepted accounting principles.
 - (5) Presentation and disclosure: That financial statement elements are properly classified and described and appropriate disclosures are made as required by generally accepted accounting principles, or as prescribed by the auditor of state for entities that do not follow generally accepted accounting principles.
- (C) The following systems and documents may be used to effectively maintain the accounting and budgetary records of the local public office:
 - (1) All local public offices should integrate the budgetary accounts, at the legal level of control or lower, into the financial accounting system. This means designing an accounting system to provide ongoing and timely information on unrealized budgetary receipts and remaining uncommitted balances of appropriations.

FINDING NUMBER 2013-001
(Continued)

The legal level of control is the level (e.g., fund, program or function, department, or object) at which spending in excess of budgeted amounts would be a violation of law. This is established by the level at which the legislative body appropriates. For all local public offices subject to the provisions of Chapter 5705. of the Revised Code, except school districts and public libraries, the minimum legal level of control is described in section 5705.38 of the Revised Code. The legal level of control is a discretionary decision to be made by the legislative authority, unless otherwise prescribed by statute.

- (2) Purchase orders should be used to approve purchase commitments and to encumber funds against the applicable appropriation account(s), as required by section 5705.41(D) of the Revised Code. Purchase orders are not effective unless the fiscal officer's certificate is attached. The certificate should be attached at the time a commitment to purchase goods or services is made.
 - (3) Vouchers may be used as a written order authorizing the drawing of a check in payment of a lawful obligation of the public office. Each voucher shall contain the date, purchase order number, the account code, amount, approval, and any other required information. The local office should also attach supporting documentation to the voucher, such as vendor invoices.
- (D) All local public offices may maintain accounting records in a manual or computerized format. The records used should be based on the nature of operations and services the public office provides, and should consider the degree of automation and other factors. Such records should include the following:
- (1) Cash journal, which typically contains the following information: The amount, date, receipt number, check number, account code, purchase order number, and any other information necessary to properly classify the transaction.
 - (2) Receipts ledger, which typically assembles and classifies receipts into separate accounts for each type of receipt of each fund the public office uses. The amount, date, name of the payor, purpose, receipt number, and other information required for the transactions can be recorded on this ledger.
 - (3) Appropriation ledger, which may assemble and classify disbursements or expenditure/expenses into separate accounts for, at a minimum, each account listed in the appropriation resolution. The amount, fund, date, check number, purchase order number, encumbrance amount, unencumbered balance, amount of disbursement, uncommitted balance of appropriations and any other information required may be entered in the appropriate columns.
 - (4) In addition, all local public offices should maintain or provide a report similar to the following accounting records:
 - (a) Payroll records including:
 - (i) W-2's, W-4's and other withholding records and authorizations.
 - (ii) Payroll journal that records, assembles and classifies by pay period the name of employee, social security number, hours worked, wage rates, pay date, withholdings by type, net pay, and other compensation paid to an employee (such as a termination payment), and the fund and account charged for the payments.
 - (iii) Check register that includes, in numerical sequence, the check number, payee, net amount, and the date.

FINDING NUMBER 2013-001
(Continued)

- (iv) Information regarding nonmonetary benefits such as car usage and life insurance.
 - (v) Information, by employee, regarding leave balances and usage.
- (b) Utilities billing records including:
- (i) Master file of service address, account numbers, billing address, type of services provided, and billing rates.
 - (ii) Accounts receivable ledger for each service type, including for each customer account, the outstanding balance due as of the end of each billing period (with an aging schedule for past due amounts), current usage and billing amount, delinquent or late fees due, payments received and noncash adjustments, each maintained by date and amount.
 - (iii) Cash receipts records, recording cash received and date received on each account. This information should be used to post payments to individual accounts in the accounts receivable ledger described above.
- (c) Capital asset records including such information as the original cost, acquisition date, voucher number, the asset type (land, building, vehicle, etc.), asset description, location, and tag number. Local governments preparing financial statements using generally accepted accounting principles will want to maintain additional data. Capital assets are tangible assets that normally do not change form with use and should be distinguished from repair parts and supply items.
- (E) Each local public office should establish a capitalization threshold so that, unless the local public office establishes a capitalization threshold for any individual item of \$5,000 or more, at a minimum, eighty per cent of the local public office's non-infrastructure assets are identified, classified, and recorded on the local public office's financial records.

The District did not maintain the records required by Ohio Administrative Code §117-2-02. The District did not utilize the encumbrance method of accounting, and therefore did not maintain an appropriations ledger. Additionally, the District purchased a water tower and did not create a capital asset listing showing the attributes required in Ohio Admin. Code §117-2-02(D)(4)(c).

The failure to maintain the required records could lead to failure to comply with budgetary laws, overspending, negative fund balances, in accurate financial statements, and loss or misappropriation of assets.

We recommend the District take the necessary steps to ensure that the required accounting records are properly maintained.

Official's Response:

A limited accounting system had been in place before the hiring of the present fiscal officer and that limited system continued to be used. Should the District continue, the accounting system will be improved to report the transactions, FY 2014 will be re-written to reflect these changes.

The District Board did go through the formality of approving a budget for FY 2012 & 2013. The activities quickly centered on the actual payments for legal services followed by the engineering costs and then finally the cost of operating the District. Re-appropriating monies from one appropriation account to another as described in the sections of the Ohio Revised Code was not done.

**FINDING NUMBER 2013-001
(Continued)**

Purchase orders were limited to using the 'then and now' type. Each check was attached to a cash distribution form and accompanied by the vendor invoice. The Fiscal Officer acknowledges there were two missing invoices prior to coming on board that were missing but were added to the records when copies were received from the vendor. The Fiscal Officer acknowledges that District Board members had failed to sign and counter sign the records form. The Fiscal Officer had advised the District Board that failure to properly sign the forms could result in a 'ding' to the District by the auditor.

Vouchers had not been used for purchases greater than \$3,000.00. The Board approved the de-construction of the water storage tank, purchased by others and the scope of work to be provided by the engineering firm. All others were monthly billings. Appropriate changes will be made if the District should continue.

The District Board realized a computerized accounting system would be required to maintain the records for an operating utility board. The Fiscal Officer had advised the District Board a system for recording customer names, addresses, usage data will be required when actual operations begin. This could be a purchased system that could do all the appropriations, disbursements, payroll and all others district required functions or we could third party contract the District's operations to include a (1) cash journal; (2) receipts ledger; and (4) payroll records and utility customer recordings.

The District has not purchased any assets. German Township purchased a 'used' water storage tank from Montgomery County. This expenditure was listed on German Township's disbursement listing only, there wasn't a resolution in place for gifting or receiving the tank. The capital records were limited. The question of capitalized expenditures was actually made on the original financial statements. The Fiscal Officer had actually capitalized the legal and engineering costs based upon knowing that only a portion of the bank loans would be repaid from the long-term financing loan and the balance re-paid over an extended time (years) from water revenues. The auditor wanted these disbursements expensed during the fiscal year.

The District Board had not established this threshold. Should the District continue, this will be included as an agenda action item.

The District, with the help from the Auditor's office, will take the necessary steps to ensure that the proper and required accounting records are maintained in form and function to comply with the Revised Code.

AOS Conclusion:

The water tower storage tank was indeed on the German Township register of payments made on behalf of the District. Because the payment was made on behalf of the District, a resolution gifting or receiving the tank is not necessary. The District purchased the asset by approving the expenditures made on its behalf. The purchase of the water tower is included in the German Township loan. Additionally, the District presented AOS regulatory basis statements. Capitalizing and amortizing expenditures is not permitted in this basis of reporting.

The District has not contracted with the Auditor of State's Local Government Services division for non-audit services and the financial audit division has not provided any non-audit services to the District.

FINDING NUMBER 2013-002

Noncompliance Citation

Ohio Rev. Code §5705.41(D)(1) prohibits a subdivision or taxing entity from making any contract or ordering any expenditure of money unless a certificate signed by the fiscal officer is attached thereto. The fiscal officer must certify that the amount required to meet any such contract or expenditure has been lawfully appropriated and is in the treasury, or is in the process of collection to the credit of an appropriate fund free from any previous encumbrance.

There are several exceptions to the standard requirement stated above that a fiscal officer's certificate must be obtained prior to a subdivision or taxing authority entering into a contract or order involving the expenditure of money. The main exceptions are: "then and now" certificates, blanket certificates, and super blanket certificates, which are provided for in sections 5705.41(D)(1) and 5705.41(D)(3), respectively, of the Ohio Revised Code.

1. **"Then and Now" certificate** – If the fiscal officer can certify that both at the time that the contract or order was made ("then"), and at the time that the fiscal officer is completing the certification ("now"), that sufficient funds were available or in the process of collection, to the credit of a proper fund, properly appropriated and free from any previous encumbrance, the District can authorize the drawing of a warrant for the payment of the amount due. The District has thirty days from the receipt of the "then and now" certificate to approve payment by ordinance or resolution.

Amounts of less than \$3,000 may be paid by the fiscal officer without a resolution or ordinance upon completion of the "then and now" certificate, provided that the expenditure is otherwise lawful. This does not eliminate any otherwise applicable requirement for approval of expenditures by the District.

2. **Blanket Certificate** – Fiscal officers may prepare "blanket" certificates for a certain sum of money not in excess of an amount established by resolution or ordinance adopted by a majority of the members of the legislative authority against any specific line item account over a period not running beyond the end of the current fiscal year. The blanket certificates may, but need not, be limited to a specific vendor. Only one blanket certificate may be outstanding at one particular time for any one particular line item appropriation.
3. **Super Blanket Certificate** – The District may also make expenditures and contracts for any amount from a specific line-item appropriation account in a specified fund upon certification of the fiscal officer for most professional services, fuel, oil, food items, and any other specific recurring and reasonably predictable operating expense. This certification is not to extend beyond the current year. More than one super blanket certificate may be outstanding at a particular time for any line item appropriation.

The District did not properly employ the "Then and Now" certification process. The District prepared "Then and Now" certifications for all of the District's expenditures, including the expenditures that exceeded \$3,000. 19 of the 46 expenditures tested (41%) had "then and now" certifications, were over \$3,000, and were not approved by the Board of Trustees. Unless the exceptions noted above are properly used, prior certification is not only required by statute but is a key control in the disbursement process to assure that purchase commitments receive prior approval. To improve controls over disbursements and to help reduce the possibility of the District's funds exceeding budgetary spending limitations, we recommend that the fiscal officer certify that the funds are or will be available prior to obligation by the District. When prior certification is not possible, "then and now" certification should be used.

FINDING NUMBER 2013-002

We recommend the District certify purchases to which section 5705.41(D) applies. The most convenient certification method is to use purchase orders that include the certification language 5705.41(D) requires to authorize disbursements. The fiscal officer should sign the certification at the time the District incurs a commitment, and only when the requirements of 5705.41(D) are satisfied. The fiscal officer should post approved purchase commitments to the proper appropriation code, to reduce the available appropriation.

Official's Response:

The District simply did not use the proper 'certificates' to pay the bills. The process had been established before the Fiscal Officer was employed and was simply continued as listed. The 'then and now' certificates were all signed to certify funds were available when the resolutions were approved by the District Board for payment.

FINDING NUMBER 2013-003

Noncompliance Citation

Ohio Rev. Code §149.351(A) provides that all records are the property of the public office concerned and shall not be removed, destroyed, mutilated, transferred, or otherwise damaged or disposed of, in whole or in part, except as provided by law or under the rules adopted by the records commission provided for under Sections 149.38 to 149.42 of the Ohio Revised Code. Contrary to this section of the Ohio Rev. Code, the District failed to retain the following documents:

- Invoices for disbursements to the legal consulting firm for the disbursements dated July 18, 2012 and October 8, 2012 for \$39,851.50 and \$6,225.00.
- Invoices for disbursements to the fiscal officer dated October 8, November 26, December 10 of 2013, and January 14 of 2014 totaling \$1,530.03.
- Minutes for all board meetings during the period from January 1, 2012 to May 16, 2012.
- A copy of the \$75,000 revenue note agreement with First National Bank of Germantown.

The District was able to provide duplicate copies of invoices or alternative supporting documentation for each of the missing items except the minutes. Failure to maintain original supporting documentation could lead to non-compliance with Ohio Revised Code and findings for adjustment or findings for recovery.

We recommend that the District retain supporting documentation for all of the District's financial and governing activities.

Official's Response:

The District Board has not destroyed any existing records, however, during the audit process it was necessary to request copies or provide support for existing documents. The District Board and Fiscal Officer understand the historical importance as well as complying with the law about good record keeping.

FINDING NUMBER 2013-004

Noncompliance Citation

Ohio Rev. Code §5705.36(A) states:

- (1) On or about the first day of each fiscal year, the fiscal officer of each subdivision and other taxing unit shall certify to the county auditor the total amount from all sources available for expenditures from each fund set up in the tax budget or, if adoption of a tax budget was waived under section 5705.281 of the Revised Code, from each fund created by or on behalf of the taxing authority.

FINDING NUMBER 2013-004
(Continued)

Ohio Rev. Code §5705.28(B) states:

(2)

- (a) The taxing authority of a taxing unit that does not levy a tax is not required to adopt a tax budget pursuant to division (A) of this section. Instead, on or before the fifteenth day of July each year, such taxing authority shall adopt an operating budget for the taxing unit for the ensuing fiscal year. The operating budget shall include an estimate of receipts from all sources, a statement of all taxing unit expenses that are anticipated to occur, and the amount required for debt charges during the fiscal year. The operating budget is not required to be filed with the county auditor or the county budget commission.
- (b) Except for this section and sections 5705.36, 5705.38, 5705.40, 5705.41, 5705.43, 5705.44, and 5705.45 of the Revised Code, a taxing unit that does not levy a tax is not a taxing unit for purposes of Chapter 5705. of the Revised Code. Documents prepared in accordance with such sections are not required to be filed with the county auditor or county budget commission.
- (c) The total appropriations from each fund of a taxing unit that does not levy a tax shall not exceed the total estimated revenue available for expenditures from the fund, and appropriations shall be made from each fund only for the purposes for which the fund is established.

The District did not prepare the certificate of estimated resources required by Ohio Rev. Code § 5705.36 in 2012 or 2013. Additionally, in 2013, the District reissued the appropriations of \$300,000 issued in 2012, which exceeded the beginning available fund balance in the District's bank account by \$153,132, in violation of Section 5705.28. These appropriations exceeded actual receipts (\$75,000) for the fiscal year and beginning available cash balance (\$146,868) by \$78,132. A lack of budgetary controls can lead to overspending by the District and negative cash fund balances.

We recommend that the District prepare budgets that compare estimated revenues and resources available to appropriations.

Officials' Response:

The officials did not provide a response to this finding.

FINDING NUMBER 2013-005

Material Weakness

When designing the public office's system of internal control and the specific control activities, management should ensure that all transactions are properly authorized in accordance with management's policies and ensure adequate security of assets and records, and performing analytical procedures to determine the reasonableness and accuracy of financial data.

The District lacks management oversight of the presentation of financial activities as described below:

- The District initially presented cash basis statements and presented a statement of net assets and a statement of net position. These statements were not complete and the District preferred to present regulatory statements.

FINDING NUMBER 2013-005
(Continued)

- The District did not present footnote disclosure discussing the financial uncertainty surrounding the District's future and the possibility that the District may cease to exist as a going concern in the first footnotes presented by the District.
- The District also did not initially present footnote disclosure detailing management's plans to deal with the financial difficulties the District faces.
- The District did not present a footnote disclosure detailing the default on the \$75,000 revenue notes and the restructuring of the debt.
- The District did not record revenues and expenditures totaling \$14,258 in 2012 to account for the on behalf activity paid on behalf of the District by German Township.
- The District presented a \$75,000 revenue note sale in the liabilities footnote as an addition to the \$300,000 revenue notes instead of reporting the debt issuance separately.
- In 2012, the District presented \$150,591 of expenditures as non-operating expenditures. These expenditures were operating expenditures and required adjustment in the financial statements.
- In 2013, The District presented \$171,275 of expenditures as non-operating expenditures. These expenditures were operating expenditures and required adjustment in the financial statements.

The District attempted to make the adjustments noted above to the financial statements. The District then presented adjusted financial statements with the following errors, leading to a disclaimer of opinion on the financial statements:

- The financial statements did not follow the same expenditure classification structure as the supporting accounting records. The effects of this error were undeterminable.
- Revenues and expenditures from the 2011 portion of the German Township loan were included on the 2012 financial statements. The effects of this misstatement on the financial statements could not be determined because there was not supporting documentation regarding the allocation of expenditures.
- Engineering, legal, and loan fees were presented as capital outlays. The effects of this misstatement on the financial statements could not be determined due to the inclusion of the above debt related revenues and expenditures.
- Actual receipts in the budgetary footnote agree to the accompanying financial statements but the financial statements do not agree to the supporting accounting records. The supporting accounting records also did not include the amounts loaned to the District by German Township during the audit period.
- Actual expenditures in the budgetary footnote agree to the accompanying financial statements but the financial statements do not agree to the supporting accounting records. The supporting accounting records also did not include the amounts loaned to the District by German Township during the audit period.

A lack of management oversight on the financial reporting process could lead to errors and materially misstated financial statements.

We recommend that the District establish review procedures to detect errors presented on draft financial statements.

FINDING NUMBER 2013-005
(Continued)

Official's Response:

Auditor's claim of a 'management oversight' which could lead to errors and materially misstated financial statements.

The integrity of the records and the records keeping process exhibits the professionalism of the Fiscal Officer and Auditor. The initial figures were in pencil reflecting a degree of uncertainty which resulted in adjustments. This is where we should have called a 'time-out' and worked together/communicated to make sure the auditor was receiving timely and correct information. The Fiscal Officer verbally told the auditor this was his first exposure to this actual financial statement presentation form(s).

AOS Conclusion:

The District's management is responsible for the financial statements. The Auditor's responsibility is limited to opining on the financial statements. Any questions the auditee has regarding the proper presentation of the financial statements should be taken to a consultant independent of the auditor of the financial statements.

FINDING NUMBER 2013-006

Material Weakness

When designing the public office's system of internal control and the specific control activities, management should ensure that all transactions are properly authorized in accordance with management's policies and ensure adequate security of assets and records, and performing analytical procedures to determine the reasonableness of financial data.

The District lacked oversight of financial activities. The board's check approval certificates required two or more board members to sign to approve the disbursements. On fourteen of the forty-six disbursements tested (30%), there was only one signature or no signature at all from the board members approving the disbursements. A lack of review and approval process over cash disbursements could lead to the District making improper expenditures.

We recommend that the Board of Trustees properly review and approve all expenditures.

Official's Response:

The District Board and Fiscal Officer welcomes the recommendation that the Board properly reviews and approves all expenditures. We have covered the need to have multiple signatures on the disbursement forms, purchase orders, and vouchers in previous findings. For transparency, authorizations and as a protector of the District's funds, this Fiscal Officer included disbursements as an agenda item and a roll call vote before checks were distributed. Initially, the District's checks only required a single signature...this Fiscal Officer asked the District Board to pass a resolution requiring two signatures on each before distribution. This did two things, (1) District Boards members were aware of all disbursements and (2) there is transparency of the activities of the Fiscal Officer.

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Dave Yost • Auditor of State

VALLEY VIEW WATER AND SEWER DISTRICT

MONTGOMERY 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
JANUARY 8, 2015**