



Dave Yost • Auditor of State

**HENRY COUNTY REGIONAL WATER AND SEWER DISTRICT
HENRY COUNTY**

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Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT

Henry County Regional Water and Sewer District
Henry County
1857 Oakwood Avenue
Napoleon, Ohio 43545-9243

To the Board of Trustees:

Report on the Financial Statements

We have audited the accompanying financial statements of the cash balances, receipts, and disbursements by fund type, and related notes of Henry County Regional Water and Sewer District, Henry County, Ohio (the District) as of and for the years ended December 31, 2014 and 2013.

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

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

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

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 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 (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 Section 117.38 and Ohio Administrative Code Section 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 or cash flows of the District as of December 31, 2014 and 2013, or changes in financial position 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 combined cash balances of Henry County Regional Water and Sewer District, Henry County, Ohio as of December 31, 2014 and 2013, and its combined cash receipts and disbursements for the years then ended in accordance with the financial reporting provisions Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 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 January 13, 2016, 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

January 13, 2016

**HENRY COUNTY REGIONAL WATER AND SEWER DISTRICT
HENRY COUNTY**

**COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS
AND CHANGES IN FUND BALANCES (CASH BASIS)
ALL ENTERPRISE FUNDS
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013**

	2014	2013
Operating Cash Receipts:		
Charges for Services	\$539,176	\$435,770
Miscellaneous	103	162
	539,279	435,932
Operating Cash Disbursements:		
Personal Services	2,320	1,500
Utilities	333,895	64,917
Repairs and Maintenance	35,266	9,642
Testing and Licenses	18,763	18,876
Other Contractual Services	88,527	246,703
Chemicals and Operating Supplies	12,343	34,197
Office Supplies and Materials	3,651	5,586
Insurance	5,902	6,192
Capital Outlay	251,752	157,229
	752,419	544,842
Operating Loss	(213,140)	(108,910)
Non-Operating Cash Receipts:		
Proceeds from Sale of Public Debt:		
Ohio Water Development Proceeds	109,774	308,926
Ohio Public Works Commission Proceeds	119,395	
Other Non-Operating Revenues	5,788	136,510
	234,957	445,436
Non-Operating Cash Disbursements:		
Debt Service Principal	166,799	331,309
Debt Service Interest	47,988	26,346
Other Non-Operating Cash Disbursements	63,825	63,825
	214,787	421,480
Net Disbursements Over Receipts	(192,970)	(84,954)
Fund Cash Balances, January 1	348,626	433,580
Fund Cash Balances, December 31	\$155,656	\$348,626

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

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**HENRY COUNTY REGIONAL WATER AND SEWER DISTRICT
HENRY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013**

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 Henry County Regional Water and Sewer District, Henry County, Ohio (the District) as a body corporate and politic. The Henry County Commissioners appoint members to the Board of Trustees to direct the District. There are five Board members. The District includes all unincorporated areas within the County and the Village of McClure excluding the Ridgeville District. The District provides water and sewer services to residents of the District.

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'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.

D. Fund Accounting

The District uses fund accounting to segregate cash and investments that are restricted as to use. The District classifies its funds into the following fund type:

Enterprise Funds

These funds account for operations that are similar to private business enterprises, where Management intends to recover the significant costs of providing certain goods or services through user charges. The District had the following significant Enterprise Funds:

Water Fund - This fund receives charges for services from the McClure residents and Road P customers and operating loan monies from Henry County to operate the water system.

Sewer Fund - This fund receives charges for services from the Okolona area residents and McClure residents to cover the costs to operate the sewer system.

McClure Project Fund - This fund received OWDA Loan monies to fund the McClure Waterline and Water tank projects.

**HENRY COUNTY REGIONAL WATER AND SEWER DISTRICT
HENRY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

E. 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 or 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 2014 and 2013 budgetary activity appears in Note 3.

F. 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 District may maintains a cash pool all funds use. The Ohio Revised Code prescribes allowable deposits and investments.

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

	<u>2014</u>	<u>2013</u>
Demand deposits	<u>\$155,656</u>	<u>\$348,626</u>

Deposits: Deposits are insured by the Federal Depository Insurance Corporation; or collateralized by the financial institution's public entity deposit pool.

**HENRY COUNTY REGIONAL WATER AND SEWER DISTRICT
HENRY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013
(Continued)**

3. BUDGETARY ACTIVITY

Budgetary activity for the years ending December 31, 2014 and 2013 follows:

2014 Budgeted vs. Actual Receipts		
Budgeted Receipts	Actual Receipts	Variance
\$396,347	\$774,236	\$377,889

2014 Budgeted vs. Actual Budgetary Basis Expenditures		
Appropriation Authority	Budgetary Expenditures	Variance
\$633,605	\$967,206	(\$333,601)

2013 Budgeted vs. Actual Receipts		
Budgeted Receipts	Actual Receipts	Variance
\$413,818	\$881,368	\$467,550

2013 Budgeted vs. Actual Budgetary Basis Expenditures		
Appropriation Authority	Budgetary Expenditures	Variance
\$482,605	\$966,322	(\$483,717)

Contrary to Ohio law, the District's budgetary expenditures exceeded appropriations for the year ended December 31, 2014, and December 31, 2013 by \$333,601 and 483,717, respectively. Also contrary to Ohio law, at December 31, 2014, the District had amended appropriations by \$732,083 without obtaining appropriate Board of Trustee's approval.

4. DEBT

Debt outstanding at December 31, 2014 was as follows:

	Principal	Interest Rate
First Mortgage Waterworks Revenue Bonds	\$26,000	5.00%
OPWC Loan CE836	30,756	4.00%
OPWC Loan CE41H	1,762	0.00%
OWDA Loan 6026	1,041,245	1.00%
OWDA Loan 5633	232,338	3.34%
OWDA Loan 6025	462,997	1.00%
OPWC Loan CE271	52,157	0.00%
OPWC Loan CE56M	103,815	0.00%
OWDA Loan 6338	551,134	2.00%
OPWC Loan CE51Q	119,395	0.00%
Total	\$2,621,599	

**HENRY COUNTY REGIONAL WATER AND SEWER DISTRICT
HENRY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013
(Continued)**

4. DEBT – (Continued)

Effective December 31, 2009 the District assumed the water and sewer debt of the Village of McClure, Henry County as part of an Assumption Agreement whereby the District also gained the Village's utility customers, property and funds. The Village of McClure debt included Sanitary Sewer Mortgage Revenue Bonds, First Mortgage Waterworks Revenue Bonds, OPWC loan #CE836, and OPWC loan #CE41H. This debt was all incurred by the Village of McClure for the construction or improvement of the water or sanitary sewer systems in the Village of McClure. During 2012, the District acquired OWDA Loan #6026 and used the proceeds to pay off the Sanitary Sewer Mortgage Revenue Bonds.

Contrary to the Assumption Agreement with the Village of McClure, the District did not pay the scheduled payments on the First Mortgage Waterworks Revenue Bonds due in 2010 through 2013. The District has now paid the past due balances and is current on these payments as of December 31, 2014.

The Ohio Water Development Authority (OWDA) loan #5633 is being used to finance the SR 108 Filling Home Waterline project. The Repayment of the OWDA loan began in 2012.

In 2011, the Ohio Water Development Authority (OWDA) loan #6025 was acquired to finance the Okolona Sewer project. The Repayment of the OWDA loan began in 2013.

The Ohio Public Works Commission (OPWC) loan #CE271 was used to connect the District's Road P customers to the District waterline. Repayment of the OPWC loan began in 2007.

In 2011, the Ohio Public Works Commission (OPWC) loan #CE56M was acquired to finance the McClure Water Treatment and Distribution System Improvements. Repayment of the OPWC loan began in 2012.

In 2013, the Ohio Water Development Authority (OWDA) loan #6338 was acquired to connect a waterline to McClure and construct a water tower. Part of this loan was also used to pay for Ohio Water Development Authority (OWDA) Loan #5668 for the planning and design of the McClure water connection. As of December 31, 2014, an amortization schedule has not been prepared as the project is not yet completed and all loan monies have not been disbursed. The Repayment of the OWDA loan began in 2014.

In 2014, the Ohio Public Works Commission (OPWC) loan #CE51Q was acquired to finance the Water Meter and Hydrant Replacement Project. As of December 31, 2014, an amortization schedule has not been prepared as the project is not yet completed and all loan monies have not yet been disbursed.

**HENRY COUNTY REGIONAL WATER AND SEWER DISTRICT
HENRY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013
(Continued)**

4. DEBT – (Continued)

Amortization of the above debt, including interest, assumed from the Village of McClure and the District's OPWC and OWDA loans is scheduled as follows:

Year ending December 31:	Water Revenue Bonds	Ohio Public Works Commisson Loans	Ohio Water Development Authority Loans
2015	\$27,300	\$21,546	\$79,752
2016		19,784	79,752
2017		19,784	79,752
2018		15,031	79,752
2019		10,279	79,752
2020-2024		51,397	398,759
2025-2029		40,965	398,759
2030-2034		12,214	354,660
2035-2039			310,560
2040-2043			164,635
Total	<u>\$27,300</u>	<u>\$191,000</u>	<u>\$2,026,133</u>

In addition to the debt noted above the District also has committed to repaying Henry County for an Ohio Water Development Authority loan Henry County issued and paid off in total of \$111,898 for the purpose of forming the District, and a 2009 loan of \$5,000 for payment of an environmental report.

The District sold a building to the Henry County Commissioners on April 9, 2015, in exchange for the forgiveness of two loans with the Henry County Commissioners: a 2010 operating expense loan of \$40,000 and a 2012 operating expense loan of \$30,000.

5. RISK MANAGEMENT

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

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

OPRM coverage programs are developed specific to each member's risk management needs and the related premiums for coverage are determined through the application of uniform underwriting criteria addressing the member's exposure to loss, except OPRM retains 41.5% (effective

**HENRY COUNTY REGIONAL WATER AND SEWER DISTRICT
HENRY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013
(Continued)**

5. RISK MANAGEMENT – (Continued)

November 1, 2011) of the premium and losses on the first \$250,000 casualty treaty and 10% of the first \$1,000,000 property treaty. Effective November 1, 2012 (and through October 2014) the plan increased its retention to 50% of the first \$250,000 casualty treaty. The Plan's property retention remained unchanged from prior years. This change was made to balance the reinsurance market conditions. Members are only responsible for their self-retention (deductible) amounts, which vary from member to member. OPRM had 774 and 783 members as of December 31, 2013 and 2014 respectively.

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

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

The Pool's audited financial statements conform with generally accepted accounting principles, and reported the following assets, liabilities and equity at December 31, 2013 and 2014.

	<u>2013</u>	<u>2014</u>
Assets	\$13,774,304	\$14,830,185
Liabilities	<u>(7,968,395)</u>	<u>(8,942,504)</u>
Members' Equity	<u>\$5,805,909</u>	<u>\$5,887,681</u>

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



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

Henry County Regional Water and Sewer District
Henry County
1857 Oakwood Avenue
Napoleon, Ohio 43545-9243

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 Henry County Regional Water and Sewer District, Henry County, Ohio (the District) as of and for the years ended December 31, 2014 and 2013, and the related notes to the financial statements and have issued our report thereon dated January 13, 2016 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.

Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or 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.

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 certain deficiencies in internal control, described in the accompanying schedule of findings that we consider material weaknesses. We consider findings 2014-001 and 2014-003 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, 2014-001 and 2014-002.

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

January 13, 2016

**HENRY COUNTY REGIONAL WATER AND SEWER DISTRICT
HENRY COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2014 AND 2013**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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FINDING NUMBER 2014-001

Noncompliance Citation and Material Weakness

Ohio Rev. Code § 5705.40 provides that any appropriation measure may be amended or supplemented if the entity complies with the same laws used in making the original appropriation.

The Facilitator amended the 2014 appropriations by \$732,083. The amended appropriations were not passed by resolution or ordinance, and there was no indication that the Board had approved the amended amounts.

The District did not realize amendments to appropriations needed to be approved by the Board. The understanding was that the Board sets the budget and appropriations at the beginning of the fiscal year, and changes needed to be made throughout the year based on project needs.

This condition provides for possible unauthorized appropriations, allowing the Fiscal personnel spending authority without Board approval. The budgetary note to the financial statements (Note 3) was corrected to reflect the approved amounts.

To correct the above condition, the District should amend appropriations in compliance with the same law used in making the original appropriations by amending the appropriations at the legal level of control and obtaining the proper Board approval prior to making any expenditures upon the amended appropriations.

The District should identify the approval of the amended appropriations with sufficient detail in the Board minute records.

Officials' Response:

The Facilitator did not realize a Resolution was needed to amend appropriations. This was never done in the past, but the District was not on the UAN system.

FINDING NUMBER 2014-002

Noncompliance Citation

Ohio Rev. Code § 5705.41(B) requires that no subdivision expend money unless it has been appropriated.

The District's expenditures exceeded approved Appropriations in 2014 and 2013 by \$333,601 and \$483,717, respectively.

The Facilitator did not realize amendments to appropriations needed to be approved by the Board. The understanding was that the Board sets the budget and appropriations at the beginning of the fiscal year, and changes needed to be made throughout the year based on project needs.

**FINDING NUMBER 2014-002
(Continued)**

This condition has resulted in the District expending greater than what the Board has approved and could result in the misappropriation of assets.

To correct this condition, the District should appropriate for expenditures the amounts that it anticipates expending with the appropriate approvals of the Board.

Officials' Response:

The Facilitator did not realize this needed to be approved by the Board. The understanding is the Board sets the budget and appropriations at the beginning of the fiscal year and changes needed to be made throughout the year based on project needs.

FINDING NUMBER 2014-003

Monitoring of Financial Statements – Material Weakness

Inaccurate posting of transactions impedes the ability of the Board to accurately assess the financial status of the District. We noted examples such as the following during our audit:

2014:

- Expenditures of \$568,285 reported on the District's Combined Statement were reclassified, due to most expenditures having been categorized as Other Operating Expenses;
- Proceeds from Ohio Public Works Commission (OPWC) Loan CE51Q along with Ohio Water Development Authority (OWDA) loan late fees that increase the principal amount due of \$119,686 were not posted to the District's accounting system as proceeds from debt and the related capital outlay expenditures;
- Interest payments of \$47,988 related to the District's debt payments were not classified as interest.

2013:

- Charges for Services were reduced by \$890,131 to properly post Proceeds from Debt of \$753,459, Other Non-operating Revenues of \$136,510, and Interest Revenue of \$162;
- Charges for Services Revenues and Other Contractual Services Expenditures were reduced by \$314,654 to eliminate the posted Community Development Block Grant (CDBG) activity that belonged to Henry County;
- The District used Huntington Bank as a billing and collection source for the Village of McClure Water and Sewer Charges for Services. The District closed the account at the end of 2013 and transferred the funds into the Henry County Bank Account. The Transfers In were recorded as Charges for Services for \$328,290, which included the prior bank account balances. The beginning fund balance was corrected to agree with the prior audit report, by recognizing the correct amount of Charges for Services transferred from the Huntington Bank Account of \$272,363, Operating Expenses of \$9,404, and adjustment of \$1,786 for an unidentified difference in the prior audit;

**FINDING NUMBER 2014-003
(Continued)**

- Expenditures of \$944,585 reported on the District's Combined Statements were reclassified, due to most expenditures having been categorized as Other Contractual Services;
- Personnel Expenses of \$78,500 were reclassified to Other Contractual Services to properly reflect payments made to Henry County for personnel services provided by the County;
- Proceeds from OWDA Loan 6338 that were used to pay on OWDA Loan 5668, late fees, and capitalized interest expenditures, were not posted to the District's Accounting System as proceeds from loan of \$119,941;
- Interest payments of \$26,346 related to the District's debt payments were not classified as interest;
- An OWDA loan forgiveness adjustment for \$564,474 was not recognized and required a reduction in Proceeds from OWDA and the related Capital Outlay line item.

The District had posted the above financial activity incorrectly in 2014 and 2013 due to lack of knowledge of the proper classifications for revenues and expenditures. The loan activity was not posted correctly because some of these transactions are not paid directly to the District. Transfers were posted to revenues when closing and transferring the Huntington Account monies. The financial statements and supporting ledgers have been adjusted for the items noted above.

These conditions provide for inaccurate reporting of the financial statements. To correct the above conditions we recommend the following:

- The Facilitator should use the Auditor of State (AOS) Water and Sewer District recommended format as provided for the presentation of the financial activities of the District;
- The Facilitator should confirm with those Funding Sources (i.e. OWDA, OPWC) all of the detail of the activities related to the funding (grants, loans) and the expenditures related to the projects;
- The Facilitator should review the Revenue and Expenditure Accounts within the UAN Ledgers for proper fund and account classifications and to assure consistent and accurate rollup of financial activities into the recommended format for Water and Sewer District Enterprise Fund reporting;
- The Finance Committee should also review the Revenue and Expenditure Ledgers for proper fund and account classifications and review the final financial statements at year end for completeness and accuracy prior to the Facilitator's submission. Reviews and approvals should be documented.

Officials' Response:

We did not receive a response from officials to the finding reported above.

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**HENRY COUNTY REGIONAL WATER AND SEWER DISTRICT
HENRY COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2014 AND 2013**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2012-001	Finding for Recovery against Village of Florida	Yes	
2012-002	Ohio Rev. Code § 5705.41(D)(1), lack of certification of available funds – no purchase orders	No	Partially Corrected. In 2014 purchase orders were used for all transactions.
2012-003	Ohio Admin. Code §117-2-02(A) – Did not have the appropriate ledgers.	No	Partially Corrected. Repeated in the Management Letter.
2012-004	Ohio Rev.Code, §5705.10 Commingling federal funds with other funds.	No	Finding No Longer Valid. Project activities completed in 2012.
2012-005	Monitoring of Financial Statements – Material weakness.	No	Not corrected and repeated as Finding 2014-003 in the current audit.
2012-006	Reporting and Budgeting Ohio Public Works Commission Money – Material weakness.	No	Not corrected and included in Finding 2014-003 in the current audit.
2012-007	Assignment and Assumption Agreement - The Waterworks Mortgage Revenue Bonds were not being paid.	Yes	
2012-008	34 CFR 80.20 (b)(7) Cash Management - The District did not spend grant money from the United States Department of Agriculture in a timely manner.	No	Finding No Longer Valid. 2014/2013 is not a single audit, and the project funding was completed.

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Dave Yost • Auditor of State

HENRY COUNTY REGIONAL WATER AND SEWER DISTRICT

HENRY 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
FEBRUARY 9, 2016**