



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

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, 2016 and 2015.

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 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 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 of the District as of December 31, 2016 and 2015, 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 by fund type, and related notes of Henry County Regional Water and Sewer District, Henry County, Ohio as of December 31, 2016 and 2015, 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 November 21, 2017, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.



Dave Yost
Auditor of State

Columbus, Ohio

November 21, 2017

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

**COMBINED 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 | <u>\$597,066</u> |
| Operating Cash Disbursements | |
| Personal Services | 98,282 |
| Utilities | 413,701 |
| Contractual Services | 60,008 |
| Supplies and Materials | 36,012 |
| Other | <u>2,490</u> |
| <i>Total Operating Cash Disbursements</i> | <u>610,493</u> |
| <i>Operating Loss</i> | <u>(13,427)</u> |
| Non-Operating Cash Receipts | |
| Intergovernmental Revenues | 17,282 |
| Earnings on Investments | 25 |
| OWDA Loan Proceeds | 205,108 |
| Miscellaneous | <u>25,854</u> |
| <i>Total Non-Operating Cash Receipts</i> | <u>248,269</u> |
| Non-Operating Cash Disbursements | |
| Capital Outlay | 100,894 |
| Debt Service Principal | 146,050 |
| Debt Service Interest | <u>52,099</u> |
| <i>Total Non-Operating Cash Disbursements</i> | <u>299,043</u> |
| <i>Net Disbursements Over Receipts</i> | <u>(64,201)</u> |
| Fund Cash Balances, January 1 | <u>82,741</u> |
| <i>Fund Cash Balances, December 31</i> | <u><u>\$18,540</u></u> |

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

**HENRY COUNTY REGIONAL WATER AND SEWER DISTRICT
HENRY 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 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.

Public Entity Risk Pool

The district participates in a public entity risk pool. Note 5 to the financial statement provides additional information for this entity.

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

B. Basis of Presentation

The District's financial statement consists of a statement of receipts, disbursements and changes in fund balances (regulatory cash basis.)

C. Accounting Basis

This financial statement follows 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).

This statement includes 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.

D. 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.

E. Fund Accounting

The District uses fund accounting to segregate cash that is 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:

**HENRY COUNTY REGIONAL WATER AND SEWER DISTRICT
HENRY COUNTY
NOTES TO THE FINANCIAL STATEMENT
DECEMBER 31, 2016
(Continued)**

Water Fund - This fund receives charges for services from the McClure, Road P, and SR 108 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.

There are additional separate funds for projects not related to the water and sewer fund.

F. 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 level of control, and appropriations may not exceed estimated resources. Appropriation Authority includes current year appropriations plus encumbrances carried over from the prior year (if any). The Board must annually approve appropriation measures and subsequent amendments. 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 2016 budgetary activity appears in Note 3.

G. Property, Plant, and Equipment

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

2. EQUITY IN POOLED DEPOSITS

The District maintains a cash pool all funds use. The Ohio Revised Code prescribes allowable deposits and investments. The carrying amount of deposits at December 31 was as follows:

| | |
|-----------------|------------------------|
| Demand deposits | <u><u>\$18,540</u></u> |
|-----------------|------------------------|

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

3. BUDGETARY ACTIVITY

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

**HENRY COUNTY REGIONAL WATER AND SEWER DISTRICT
HENRY COUNTY
NOTES TO THE FINANCIAL STATEMENT
DECEMBER 31, 2016
(Continued)**

| 2016 Budgeted vs. Actual Receipts | | |
|-----------------------------------|--------------------|-------------|
| Budgeted Receipts | Actual Receipts | Variance |
| \$1,678,881 | \$845,335 | (\$833,546) |

| 2016 Budgeted vs. Actual Budgetary Basis Expenditures | | |
|---|---------------------------|-----------|
| Appropriation Authority | Budgetary Expenditures | Variance |
| \$1,691,663 | \$909,536 | \$782,127 |

4. DEBT

Debt outstanding at December 31, 2016 was as follows:

| | Principal | Interest Rate |
|---|-------------|---------------|
| Ohio Public Works Commission Loan #CE836 | \$13,705 | 4.00% |
| Ohio Public Works Commission Loan #CE271 | 43,811 | 0.00% |
| Ohio Public Works Commission Loan #CE56M | 91,602 | 0.00% |
| Ohio Public Works Commission Loan #CE51Q | 133,410 | 0.00% |
| Ohio Water Development Authority Loan #5633 | 206,800 | 3.34% |
| Ohio Water Development Authority Loan #6025 | 427,429 | 1.00% |
| Ohio Water Development Authority Loan #6026 | 957,954 | 1.00% |
| Ohio Water Development Authority Loan #6338 | 1,011,144 | 2.00% |
| Loans Payable to Henry County | 116,898 | 0.00% |
| Total | \$3,002,753 | |

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.

In 2012, the District acquired OWDA Loan #6026 and used the proceeds to pay off the Sanitary Sewer Mortgage Revenue Bonds. The First Mortgage Waterworks Revenue Bonds and OPWC loan #CE41H were paid off by the District in 2015.

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 2014, the Ohio Public Works Commission (OPWC) loan #CE51Q was acquired to finance the Water Meter and Hydrant Replacement Project. Repayment of the OPWC loan began in 2015.

The Ohio Water Development Authority (OWDA) loan #5633 is being used to finance the SR 108 Filling Home Waterline project. 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. Repayment of the OWDA loan began in 2013.

**HENRY COUNTY REGIONAL WATER AND SEWER DISTRICT
HENRY COUNTY
NOTES TO THE FINANCIAL STATEMENT
DECEMBER 31, 2016
(Continued)**

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, 2016, an amortization schedule has not been prepared as the project is not yet completed and all loan monies have not been disbursed. Until completion, the District makes payments based on invoices from OWDA. Repayment of the OWDA loan began in 2014.

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: | OPWC Loan #CE836 | OPWC Loan #CE271 | OPWC Loan #CE56M | OPWC Loan #CE51Q |
|-----------------------------|---------------------|---------------------|---------------------|---------------------|
| 2017 | \$9,505 | \$4,173 | \$6,107 | \$4,681 |
| 2018 | 4,752 | 4,172 | 6,107 | 4,681 |
| 2019 | | 4,173 | 6,107 | 4,681 |
| 2020 | | 4,172 | 6,107 | 4,681 |
| 2021 | | 4,173 | 6,106 | 4,681 |
| 2022-2026 | | 20,862 | 30,534 | 23,405 |
| 2027-2031 | | 2,086 | 30,534 | 23,406 |
| 2032-2036 | | | | 23,405 |
| 2037-2041 | | | | 23,406 |
| 2042-2046 | | | | 16,383 |
| Total | <u>\$14,257</u> | <u>\$43,811</u> | <u>\$91,602</u> | <u>\$133,410</u> |

| Year Ending December 31: | OWDA Loan #5633 | OWDA Loan #6025 | OWDA Loan #6026 |
|-----------------------------|--------------------|--------------------|--------------------|
| 2017 | \$8,820 | \$9,355 | \$21,701 |
| 2018 | 17,640 | 18,710 | 43,402 |
| 2019 | 17,640 | 18,710 | 43,402 |
| 2020 | 17,640 | 18,710 | 43,402 |
| 2021 | 17,640 | 18,710 | 43,402 |
| 2022-2026 | 88,199 | 93,550 | 217,010 |
| 2027-2031 | 88,199 | 93,551 | 217,010 |
| 2032-2036 | 8,819 | 93,550 | 217,010 |
| 2037-2041 | | 93,551 | 217,010 |
| 2042-2046 | | 28,065 | 21,700 |
| Total | <u>\$264,597</u> | <u>\$486,462</u> | <u>\$1,085,049</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. No re-payment schedule has been made for these loans.

5. RISK MANAGEMENT

The District belongs to the Ohio Plan Risk Management, Inc. (OPRM) (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.

**HENRY COUNTY REGIONAL WATER AND SEWER DISTRICT
HENRY COUNTY
NOTES TO THE FINANCIAL STATEMENT
DECEMBER 31, 2016
(Continued)**

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. Until November 1, 2016, the OPRM retained 47% of the premium and losses on the first \$250,000 casualty treaty and 10% of the first \$1,000,000 property treaty. Effective November 1, 2016, the OPRM retained 50% of the premium and losses on the first \$250,000 casualty treaty and 30% of the first \$1,000,000 property treaty. Members are only responsible for their self-retention (deductible) amounts, which vary from member to member. OPRM had 762 members as of December 31, 2016.

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, 2016.

| | |
|-----------------|---------------------|
| | <u>2016</u> |
| Assets | \$14,765,712 |
| Liabilities | <u>(9,531,506)</u> |
| Members' Equity | <u>\$ 5,234,206</u> |

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

6. DEFINED BENEFIT PENSION PLAN

The District's employees belong to the Ohio Public Employees Retirement System (OPERS). OPERS is a cost-sharing, multiple-employer plan. The Ohio Revised Code prescribes this plan's benefits, which include postretirement healthcare and survivor and disability benefits.

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

7. 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. OPERS contributes 2 percent of the employer contribution to fund these benefit.

**HENRY COUNTY REGIONAL WATER AND SEWER DISTRICT
HENRY COUNTY
NOTES TO THE FINANCIAL STATEMENT
DECEMBER 31, 2016
(Continued)**

8. SUBSEQUENT EVENTS

During the McClure water line project, the tower company went bankrupt. The issue was resolved in 2017 with the bonding company. There was no liability to the District for this issue.

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

**COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS
AND CHANGES IN FUND BALANCES (REGULATORY CASH BASIS)
FOR THE YEAR ENDED DECEMBER 31, 2015**

| | |
|---|------------------------|
| Operating Cash Receipts | |
| Charges for Services | <u>\$637,265</u> |
| Operating Cash Disbursements | |
| Personal Services | 61,980 |
| Utilities | 359,964 |
| Contractual Services | 67,676 |
| Supplies and Materials | 40,422 |
| Other | <u>15,751</u> |
| <i>Total Operating Cash Disbursements</i> | <u>545,793</u> |
| <i>Operating Income</i> | <u>91,472</u> |
| Non-Operating Cash Receipts | |
| Intergovernmental Revenues | 30,060 |
| Earnings on Investments | 52 |
| Miscellaneous | 13,441 |
| Other Non-Operating Revenues | <u>28,156</u> |
| <i>Total Non-Operating Cash Receipts</i> | <u>71,709</u> |
| Non-Operating Cash Disbursements | |
| Capital Outlay | 52,429 |
| Debt Service Principal | 135,764 |
| Debt Service Interest | <u>47,903</u> |
| <i>Total Non-Operating Cash Disbursements</i> | <u>236,096</u> |
| <i>Net Disbursements Over Receipts</i> | <u>(72,915)</u> |
| Fund Cash Balances, January 1 | <u>155,656</u> |
| <i>Fund Cash Balances, December 31</i> | <u><u>\$82,741</u></u> |

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

**HENRY COUNTY REGIONAL WATER AND SEWER DISTRICT
HENRY COUNTY
NOTES TO THE FINANCIAL STATEMENT
DECEMBER 31, 2015**

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.

Public Entity Risk Pool

The district participates in a public entity risk pool. Note 5 to the financial statement provides additional information for this entity.

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

B. Basis of Presentation

The District's financial statement consists of a statement of receipts, disbursements and changes in fund balances (regulatory cash basis.)

C. Accounting Basis

This financial statement follows 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).

This statement includes 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.

D. 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.

E. Fund Accounting

The District uses fund accounting to segregate cash that is 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:

**HENRY COUNTY REGIONAL WATER AND SEWER DISTRICT
HENRY COUNTY
NOTES TO THE FINANCIAL STATEMENT
DECEMBER 31, 2015
(Continued)**

Water Fund - This fund receives charges for services from the McClure, Road P, and SR 108 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.

There are additional separate funds for projects not related to the water and sewer fund.

F. 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 level of control, and appropriations may not exceed estimated resources. Appropriation Authority includes current year appropriations plus encumbrances carried over from the prior year (if any). The Board must annually approve appropriation measures and subsequent amendments. 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 2015 budgetary activity appears in Note 3.

G. Property, Plant, and Equipment

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

2. EQUITY IN POOLED DEPOSITS

The District maintains a cash pool all funds use. The Ohio Revised Code prescribes allowable deposits and investments. The carrying amount of deposits at December 31 was as follows:

| | |
|-----------------|------------------------|
| Demand deposits | <u><u>\$82,741</u></u> |
|-----------------|------------------------|

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

3. BUDGETARY ACTIVITY

Budgetary activity for the year ending December 31, 2015 follows:

**HENRY COUNTY REGIONAL WATER AND SEWER DISTRICT
HENRY COUNTY
NOTES TO THE FINANCIAL STATEMENT
DECEMBER 31, 2015
(Continued)**

| 2015 Budgeted vs. Actual Receipts | | |
|-----------------------------------|--------------------|------------|
| Budgeted Receipts | Actual Receipts | Variance |
| \$726,200 | \$708,974 | (\$17,226) |

| 2015 Budgeted vs. Actual Budgetary Basis Expenditures | | |
|---|---------------------------|----------|
| Appropriation Authority | Budgetary Expenditures | Variance |
| \$807,853 | \$781,889 | \$25,964 |

4. DEBT

Debt outstanding at December 31, 2015 was as follows:

| | Principal | Interest Rate |
|---|-------------|---------------|
| Ohio Public Works Commission Loan #CE836 | \$22,400 | 4.00% |
| Ohio Public Works Commission Loan #CE271 | 47,984 | 0.00% |
| Ohio Public Works Commission Loan #CE56M | 97,709 | 0.00% |
| Ohio Public Works Commission Loan #CE51Q | 138,091 | 0.00% |
| Ohio Water Development Authority Loan #5633 | 222,376 | 3.34% |
| Ohio Water Development Authority Loan #6025 | 448,868 | 1.00% |
| Ohio Water Development Authority Loan #6026 | 1,008,185 | 1.00% |
| Ohio Water Development Authority Loan #6338 | 548,786 | 2.00% |
| Loans Payable to Henry County | 116,898 | 0.00% |
| Total | \$2,651,297 | |

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.

In 2012, the District acquired OWDA Loan #6026 and used the proceeds to pay off the Sanitary Sewer Mortgage Revenue Bonds. The First Mortgage Waterworks Revenue Bonds and OPWC loan #CE41H were paid off by the District in 2015.

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 2014, the Ohio Public Works Commission (OPWC) loan #CE51Q was acquired to finance the Water Meter and Hydrant Replacement Project. Repayment of the OPWC loan began in 2015.

The Ohio Water Development Authority (OWDA) loan #5633 is being used to finance the SR 108 Filling Home Waterline project. 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. Repayment of the OWDA loan began in 2013.

**HENRY COUNTY REGIONAL WATER AND SEWER DISTRICT
HENRY COUNTY
NOTES TO THE FINANCIAL STATEMENT
DECEMBER 31, 2015
(Continued)**

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, 2015, an amortization schedule has not been prepared as the project is not yet completed and all loan monies have not been disbursed. Until completion, the District makes payments based on invoices from OWDA. Repayment of the OWDA loan began in 2014.

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: | OPWC Loan #CE836 | OPWC Loan #CE271 | OPWC Loan #CE56M | OPWC Loan #CE51Q |
|-----------------------------|---------------------|---------------------|---------------------|---------------------|
| 2016 | \$9,505 | \$4,173 | \$6,107 | \$4,681 |
| 2017 | 9,505 | 4,173 | 6,107 | 4,681 |
| 2018 | 4,752 | 4,172 | 6,107 | 4,681 |
| 2019 | | 4,173 | 6,107 | 4,681 |
| 2020 | | 4,172 | 6,106 | 4,681 |
| 2021-2025 | | 20,862 | 30,534 | 23,405 |
| 2026-2030 | | 6,259 | 30,534 | 23,406 |
| 2031-2035 | | | 6,107 | 23,405 |
| 2036-2040 | | | | 23,405 |
| 2041-2045 | | | | 21,065 |
| Total | <u>\$23,762</u> | <u>\$47,984</u> | <u>\$97,709</u> | <u>\$138,091</u> |

| Year Ending December 31: | OWDA Loan #5633 | OWDA Loan #6025 | OWDA Loan #6026 |
|-----------------------------|--------------------|--------------------|--------------------|
| 2016 | \$17,640 | \$18,710 | \$43,402 |
| 2017 | 17,640 | 18,710 | 43,402 |
| 2018 | 17,640 | 18,710 | 43,402 |
| 2019 | 17,640 | 18,710 | 43,402 |
| 2020 | 17,640 | 18,710 | 43,402 |
| 2021-2025 | 88,199 | 93,550 | 217,010 |
| 2026-2030 | 88,199 | 93,551 | 217,010 |
| 2031-2035 | 26,459 | 93,550 | 217,010 |
| 2036-2040 | | 93,551 | 217,010 |
| 2041-2045 | | 46,775 | 65,102 |
| Total | <u>\$291,057</u> | <u>\$514,527</u> | <u>\$1,150,152</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. No re-payment schedule has been made for these loans.

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.

**HENRY COUNTY REGIONAL WATER AND SEWER DISTRICT
HENRY COUNTY
NOTES TO THE FINANCIAL STATEMENT
DECEMBER 31, 2015
(Continued)**

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

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

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

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

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

| | |
|-----------------|--------------|
| | 2015 |
| Assets | \$14,643,667 |
| Liabilities | (9,112,030) |
| Members' Equity | \$5,531,637 |

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

6. DEFINED BENEFIT PENSION PLAN

The District's employees belong to the Ohio Public Employees Retirement System (OPERS). OPERS is a cost-sharing, multiple-employer plan. The Ohio Revised Code prescribes this plan's benefits, which include postretirement healthcare and survivor and disability benefits.

The Ohio Revised Code also prescribes contribution rates. OPERS members contributed 10 percent of their gross salaries and the District contributed an amount equaling 14 percent, of participants' gross salaries. The District has paid all contributions required through December 31, 2015.

7. 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. OPERS contributes 2 percent of the employer contribution to fund these benefit.

**HENRY COUNTY REGIONAL WATER AND SEWER DISTRICT
HENRY COUNTY
NOTES TO THE FINANCIAL STATEMENT
DECEMBER 31, 2015
(Continued)**

8. SUBSEQUENT EVENTS

During the McClure water line project, the tower company went bankrupt. The issue was resolved in 2017 with the bonding company. There was no liability to the District for this issue.



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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

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 by fund type of the Henry County Regional Water and Sewer District, Henry County, Ohio (the District) as of and for the years ended December 31, 2016 and 2015, and the related notes to the financial statements, and have issued our report thereon dated November 21, 2017, 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 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 certain deficiencies in internal control, described in the accompanying schedule of findings that we consider material weaknesses. We consider findings 2016-001 and 2016-002 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 no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

Entity's Response to Findings

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

Purpose of this Report

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



Dave Yost
Auditor of State

Columbus, Ohio

November 21, 2017

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

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

| |
|--|
| FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS |
|--|

FINDING NUMBER 2016-001

Material Weakness

Timely Payments

Sound fiscal management includes the ability to anticipate, monitor and pay all financial obligations on time.

The District paid \$10,434 in 2016 and \$2,362 in 2015 in late fees to the City of Napoleon for untimely payments of their bulk water purchases. The District also paid \$1,884 in 2016 and \$554 in 2015 in late fees to the Ohio Water Development Authority (OWDA) for untimely payments of their debt obligations.

Late payments were a result of inadequate policies and procedures over the disbursement process. Failure to make timely payments on current obligations caused the District to incur significant late fees and could adversely affect the District's credit rating. Failure to make timely payments on OWDA loans is also a direct violation of the debt covenants in the OWDA loan agreements.

We recommend the District anticipate and monitor its upcoming obligations more closely to ensure that all payments are made on time. Such expenditures made in the future may not be considered to have a proper public purpose.

Officials' Response:

We have reviewed the above finding and agree that it is imperative to eliminate any late fee payments. Without a proper cash reserve, it can be very challenging to ensure that all bills are paid timely and in full. A number of the late payments were due to cash flow timing which made it impracticable to make such payments in a timely manner. We have been working hard to try to improve cash flow and have hired a consultant to assist in evaluating our rates to determine whether increases are necessary to ensure proper cash flow for the District. We anticipate completion of this during fiscal year 2017. We are also working with our consultant to assist in developing policies and procedures to ensure that all payments are made in a timely manner so that late fees are not imposed for any payments made by the District.

FINDING NUMBER 2016-002

Material Weakness

Financial Reporting

Accurate financial reporting is the responsibility of the Facilitator and is essential to ensure the information provided to readers of the financial statements accurately reflects the District's activity. Errors were noted in the financial statements, resulting in the following audit adjustments:

- Bulk water purchases were recorded as Other disbursements rather than Utilities within the water fund (2016 - \$413,701) (2015 - \$359,964);
- OWDA Debt Proceeds of \$205,108 in 2016 were recorded as Other Financing Sources;
- Project related disbursements were recorded as Other disbursements rather than Capital Outlay within the water fund (2016 - \$100,894) (2015 - \$52,429);

- Payroll expenses were recorded as Other disbursements rather than Personal Services (2016 - \$40,500 water fund and \$40,500 sewer fund) (2015 - \$15,000 water fund and \$15,000 sewer fund);
- Delinquent utility amounts assessed on customer's tax bills and collected by Henry County were added to the District's payroll account at the County but were never recorded as Charges for Services receipts and Personal Services disbursements in 2016 (\$8,641 water fund and \$8,641 sewer fund);
- McClure Waterline Project fund at Henry County was closed out and added to the District's payroll account at the County but was never recorded as Intergovernmental Receipts and Personal Services disbursements in 2015 (\$15,030 water fund and \$15,030 sewer fund).

These errors were a result of inadequate policies and procedures in reviewing the financial statements and accounting records throughout the audit period. The accompanying financial statements have been adjusted to correct these errors.

To help ensure the District's financial statements are complete and accurate, the District should adopt policies and procedures, including a final review of the annual report by the Board of Trustees and the audit committee to identify and correct errors, omissions, and misclassifications.

Officials' Response:

We agree that proper recording and classification of revenues and expenditures is critical to the District. We are working with our consultant to ensure that revenues and expenditures are properly categorized and will ensure that our policies and procedures are updated to properly address these matters. This also may be an issue between the UAN system and how reports are viewed by the Auditor in the HINKLE system. The District maintains a chart of accounts through the UAN system with each account having its own account code and account name. We will be working with UAN to resolve the issues. The payroll for the District is administered through the Henry County Auditor. Again, this may be an issue between the UAN system and how it states in the HINKLE report the Auditor views.

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

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2016 AND 2015**

| Finding Number | Finding Summary | Status | Additional Information |
|-----------------------|---|--|--|
| 2014-001 | Noncompliance and Material Weakness for the Board not approving appropriation amendments. | Fully corrected. | |
| 2014-002 | Noncompliance for expenditures exceeding appropriations. | Fully corrected. | |
| 2014-003 | Material weakness over financial reporting due to material audit adjustments. | Not corrected and repeated as Finding 2016-002 in this report. | This finding reoccurred due to inadequate policies and procedures in reviewing the financial statements and accounting records throughout the audit period. The District is implementing procedures to correct these errors in the future. |

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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
DECEMBER 5, 2017**