



Dave Yost • Auditor of State



**PLEASANT VALLEY REGIONAL SEWER DISTRICT  
ROSS COUNTY**

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# Dave Yost • Auditor of State

## INDEPENDENT AUDITOR'S REPORT

Pleasant Valley Regional Sewer District  
Ross County  
1822 Anderson Station Road  
Chillicothe, Ohio 45601

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 Pleasant Valley Regional Sewer District, Ross County, (the District) as of and for the year ended December 31, 2016.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for preparing and fairly presenting these financial statements in accordance with the financial reporting provisions Ohio Revised Code 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.

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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, or changes in financial position or cash flows, thereof for the year 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 Pleasant Valley Regional Sewer District, Ross County as of December 31, 2016, and its combined cash receipts and disbursements for the year 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 May 24, 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

May 24, 2017

**Pleasant Valley Regional Sewer District**  
*Ross County*  
**Combined Statement of Receipts, Disbursements**  
*And Changes in Fund Balances (Regulatory Cash Basis)*  
**For the Year Ended December 31, 2016**

<hr/> <hr/>	
<b>Operating Cash Receipts</b>	
Charges for Services	\$941,493
Other Operating Receipts	8,985
	<hr/>
<i>Total Operating Cash Receipts</i>	<i>950,478</i>
	<hr/>
<b>Operating Cash Disbursements</b>	
Purchased Services	307,041
Personal Services	330,433
Materials and Supplies	33,620
Other	23,034
	<hr/>
<i>Total Operating Cash Disbursements</i>	<i>694,128</i>
	<hr/>
<i>Operating Income/(Loss)</i>	<i>256,350</i>
	<hr/>
<b>Non-Operating Cash Receipts</b>	
Intergovernmental	54,386
Loan Proceeds	507,901
Interest	386
	<hr/>
<i>Total Non-Operating Cash Receipts</i>	<i>562,673</i>
	<hr/>
<b>Non-Operating Cash Disbursements</b>	
Purchased Services	29,880
Capital Outlay	525,132
Principal Payments	256,080
Interest and Fiscal Charges	46,945
	<hr/>
<i>Total Non-Operating Cash Disbursements</i>	<i>858,037</i>
	<hr/>
<i>Net Receipts Over/(Under) Disbursements</i>	<i>(39,014)</i>
	<hr/>
Cash Balances, January 1	1,697,509
	<hr/>
<i>Cash Balances, December 31</i>	<i>\$1,658,495</i>
	<hr/> <hr/>

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

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**Pleasant Valley Sewer District**  
*Ross County*  
*Notes to the Financial Statements*  
*For the Year Ended 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 Pleasant Valley Regional Sewer District, Ross County, (the District) as a body corporate and politic. Each political subdivision within the District appoints one member to the Board of Trustees to direct the District. There are five Board members. Subdivisions within the District are Twin, Union and Scioto Townships, Ross County Commissioners and Ross County Water Company. The District provides sewer services to residents of the District.

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

**B. 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 117-2-38(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. Budgetary Process**

The Ohio Revised Code requires the Board to budget annually. Recent Ohio Attorney General Opinion No. 99-020 has clarified that the budget process described in Chapter 5705, Revised Code, applies to the District, regardless of whether the District levies property taxes. These documents are required to be prepared in accordance with the Ohio Revised Code, but are not required to be filed with the county auditor or county budget commission. The District must adopt annual appropriations, limited by estimated resources. Expenditures will be limited by appropriations.

A summary of 2016 budgetary activity appears in Note 3.

**Pleasant Valley Sewer District**  
*Ross County*  
*Notes to the Financial Statements*  
*For the Year Ended December 31, 2016*

**1. Summary of Significant Accounting Policies (continued)**

**E. Property, Plant, and Equipment**

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

**F. Accumulated Leave**

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

**2. Equity in Pooled Deposits and Investments**

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

The carrying amount of deposits and investments at December 31, 2016 was as follows:

Demand Deposits \$ 1,658,495

**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 2016 as follows:

2016 Budgeted vs. Actual Receipts		
Budgeted Receipts	Actual Receipts	Variance
\$1,085,428	\$1,513,151	(\$427,723)
2017 Budgeted vs. Actual Budgetary Basis Expenditures		
Appropriation Authority	Budgetary Expenditures	Variance
\$1,397,780	\$1,552,165	(\$154,385)

Contrary to Ohio law, budgetary expenditures exceeded appropriation authority in the by \$154,385 for the year ended December 31, 2016.

**Pleasant Valley Sewer District**  
*Ross County*  
*Notes to the Financial Statements*  
*For the Year Ended December 31, 2016*

**4. Debt**

Debt outstanding at December 31, 2016 was as follows:

	<u>Principal</u>	<u>Interest Rate</u>
OWDA Loan #2470	\$5,561	3.00%
OWDA Loan #2471	15,315	3.00%
OWDA Loan #3325	734,590	3.00%
OWDA Loan #5122	196,211	4.00%
OPWC Loan	125,000	0.00%
Ross County Commissioners Capital Lease	178,354	5.15%
USDA Loan #92-03	<u>1,384,900</u>	3.13%
Total	<u>\$2,639,931</u>	

The Ohio Water Development Authority (OWDA) loans 2470, 2471 and 3325, were used to improve and expand the existing sewer plant. The loans are being repaid in semi-annual installments over 20 to 30 years with the last payment due in January 2021. The loans are secured by sewer receipts. The District has agreed to set utility rates sufficient to cover OWDA debt service requirements.

In 2009, Ohio Water Development Authority (OWDA) loan 5122 in the amount of \$227,938 used for the expansion of sewer lines to the Green Acres Subdivision and Slate Mills area. The lease will be repaid in semi-annual installments over 30 years with the last payment scheduled to be made in December 2039.

The Ohio Public Works Commission (OPWC) loan proceeds of \$500,000 received in 2001 were used for the expansion of the sewer plant. The loan is being repaid in semi-annual installments over 20 years with the last payment due in July 2021.

In 2004 the District entered into a lease agreement with the Ross County Commissioners for the purpose of leasing sewage lines and appurtenances in order to transport raw sewage, effluent, wastewater and other waste substances and materials. The lease is being paid in semi-annual installments over 20 years with the last payment due in December 2023.

The District entered into a loan agreement, Water Resource Revenue Bonds, Series 2015, with United States Department of Agriculture Rural Development in March 2015 for \$1,403,000. The loan was for the construction of a new administration building and improvements to the treatment plant. The loan is being repaid in annual installments over 40 years with the last payment due in March 2055.

**Pleasant Valley Sewer District**  
*Ross County*  
*Notes to the Financial Statements*  
*For the Year Ended December 31, 2016*

**4. Debt (continued)**

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

Year ending December 31:	OWDA	OPWC	Commissioners Capital Lease	USDA	Total
2017	\$215,473	\$25,000	\$27,481	\$61,878	\$329,832
2018	194,007	25,000	27,481	61,997	\$308,485
2019	194,007	25,000	27,481	61,894	\$308,382
2020	194,007	25,000	27,481	62,089	\$308,577
2021	103,665	25,000	27,481	61,934	\$218,080
2022-2026	66,611	0	82,099	309,675	\$458,385
2027-2031	66,611	0	0	309,807	\$376,418
2032-2036	66,611	0	0	309,817	\$376,428
2037-2041	39,968	0	0	309,719	\$349,687
2042-2046	0	0	0	309,655	\$309,655
2047-2051	0	0	0	309,703	\$309,703
2052-2055	0	0	0	247,729	\$247,729
Total	<u>\$1,140,960</u>	<u>\$125,000</u>	<u>\$219,504</u>	<u>\$2,415,897</u>	<u>\$3,901,361</u>

Debt principal outstanding at December 31, 2016 was 2,639,931.

**5. Retirement Systems**

*Ohio Public Employees Retirement System*

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

The Ohio Revised Code also prescribes contribution rates. For 2016, OPERS members contributed 10% of their gross salaries and the District contributed an amount equaling 14% of participants' gross salaries. The District has paid all contributions required through December 31, 201

**6. Postemployment Benefits**

OPERS offers cost-sharing, multiple-employer defined benefit postemployment plans, which include multiple health care plans including medical coverage, prescription drug coverage, deposits to a Health Reimbursement Arrangement and Medicare Part B premium reimbursements, to qualifying benefit recipients of both the traditional pension and the combined plans. OPERS contribute 2 percent of the employer contribution to fund these benefits.

**Pleasant Valley Sewer District**  
*Ross County*  
*Notes to the Financial Statements*  
*For the Year Ended December 31, 2016*

**7. Risk Management**  
**Commercial Insurance**

The District has obtained commercial insurance for the following risks:

- Comprehensive property and general liability;
- Inland Marine and Vehicles; and
- Public Officials and Employment Practices Liability

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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*

Pleasant Valley Regional Sewer District  
Ross County  
1822 Anderson Station Road  
Chillicothe, Ohio 45601

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 Pleasant Valley Regional Sewer District, Ross County, Ohio, (the District) as of and for the year ended December 31, 2016, and the related notes to the financial statements and have issued our report thereon dated May 24, 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 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 combination of internal control deficiencies resulting in a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the District's financial statements. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all internal control deficiencies that might be material weaknesses or significant deficiencies. Therefore, unidentified material weaknesses or significant deficiencies may exist. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings that we consider a material weakness. We consider finding 2016-003 to be a material weakness.

***Compliance and Other Matters***

As part of reasonably assuring whether the District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, opining on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed instances of noncompliance or other matters we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings as item 2016-001 and 2016-002.

***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

May 24, 2017



**PLEASANT VALLEY SEWER DISTRICT  
ROSS COUNTY**

**SCHEDULE OF FINDINGS  
DECEMBER 31, 2016**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b>
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**FINDING NUMBER 2016-001**

**Noncompliance**

**Ohio Rev. Code section 5705.28 (B)(2)** states 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. Additionally, Ohio Rev. Code section 5705.42 states that Federal and State grants or loans are deemed appropriated and do not require formal appropriation by the legislative body; however, this section of code directs the fiscal officer to record the appropriation amount in the accounting system.

The District did adopt an operating budget; however, the District failed to include in the budget approximately \$469,000 in estimated receipts and approximately \$518,000 in anticipated disbursements related to the USDA loan received in 2016. The District also did not record the appropriation amount in the accounting system.

We recommend the District include estimates of receipts and disbursements anticipated to occur for all sources in the operating budget.

**Officials' Response:**

We did not receive a response from Officials to this finding.

**FINDING NUMBER 2016-002**

**Noncompliance**

**Ohio Rev. Code, Section 5705.41(B)**, prohibits a subdivision from making an expenditure unless it has been properly appropriated. The USDA Sewer Project had expenditures which exceeded appropriations in 2016 by \$ 154,385.

The management of the District should monitor the budgetary receipts and expenditures by having the Fiscal Officer provide budgetary reports at least quarterly to be reviewed and approved by the Board. By regularly monitoring its budgetary position throughout the year, the District will be better able to determine when amendments need to be made to original budgeted receipts thus avoiding negative fund/account code balances, and will be better prepared for making decisions which effect the overall cash position of the District.

**Officials' Response:**

We did not receive a response from Officials to this finding.

**FINDING NUMBER 2016-003**

**Material Weakness**

The District did not have a control procedure in place to ensure that estimated receipts and disbursements, as authorized by the Board, were reconciled to the estimated receipts and disbursements as presented in the budgetary footnote.

This resulted in incorrect amounts being presented in the budgetary presentation in the footnotes.

Variances between approved amounts and amounts presented were as follows:

	Amount Reported	Corrected Amount	Variance
Budgeted Receipts	\$1,267,297	\$1,085,428	\$184,869
Appropriation Authority	1,552,165	1,397,780	154,385
Budgetary Expenditures	1,305,402	1,552,165	246,763

We recommend District take due care in completion of the Budgetary Presentation.

**Officials' Response:**

We did not receive a response from Officials to this finding.

**PLEASANT VALLEY REGIONAL SEWER DISTRICT  
ROSS COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS  
DECEMBER 31, 2016**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <b><i>Explain</i></b>
2015-001	Ohio Rev. Code 5705.28(B)(2) – Budgeting Revenues and Expenditures	No	Not Corrected – Reissued as 2016-001
2015-002	Ohio Rev. Code 5705.41 (B) – Expenditures exceed Appropriations	No	Not Corrected – Reissued as 2016-002
2015-003	Material Weakness – Accounting Records	No	Partially Corrected - Reissued as Management Letter Comment

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# Dave Yost • Auditor of State

PLEASANT VALLEY REGIONAL SEWER DISTRICT

ROSS 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  
JUNE 13, 2017