



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 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, 2012 and 2011.

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 of Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03; 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, which is an accounting basis other than accounting principles generally accepted in the United States of America, to satisfy requirements.

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

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, 2012 and 2011, 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, 2012 and 2011, 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 permits, described in Note 1.

Other Matters

Our audit was conducted to opine on the financial statements taken as a whole. The federal awards expenditures schedule presents additional analysis required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and is not a required part of the financial statements. The schedule is management's responsibility, and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. This schedule was subjected to the auditing procedures we applied to the financial statements. We also applied certain additional procedures, including comparing and reconciling this information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, in accordance with auditing standards generally accepted in the United States of America. In our opinion, this schedule is fairly stated in all material respects in relation to the financial statements taken as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 15, 2013, 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

May 15, 2013

**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, 2012 AND 2011**

	2012	2011
Operating Cash Receipts:		
Charges for Services	\$390,064	\$389,118
Operating Cash Disbursements:		
Personal Services		
Utilities	25,936	25,087
Repairs and Maintenance		
Testing and Licenses		
Other Contractual Services	1,041,687	329,317
Chemicals and Operating Supplies	28,372	23,560
Office Supplies and Materials		
Insurance	5,706	5,345
Capital Outlay	521,769	293,035
Total Operating Cash Disbursements	1,623,470	676,344
Operating Loss	(1,233,406)	(287,226)
Non-Operating Receipts (Disbursements):		
Interest	689	84
Intergovernmental Revenues	1,558,400	137,788
Ohio Water Development Authority Loan Proceeds	1,166,216	743,006
Loan Proceeds		30,000
Ohio Public Works Commission Loan Proceeds		122,136
Insurance Claims	12,360	4,635
Special Assessments	4,269	3,960
Other Non-Operating Revenues	14,371	2,080
Debt Service - Principal	(1,139,168)	(656,568)
Debt Service - Interest	(81,926)	(2,372)
Other Non-Operating Cash Disbursements	(6,545)	(28,185)
Total Non-Operating Receipts (Disbursements)	1,528,666	356,564
Net Change in Fund Cash Balances	295,260	69,338
Fund Cash Balances, January 1	138,320	68,982
Fund Cash Balances, December 31	\$433,580	\$138,320

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, 2012 AND 2011**

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 Henry County Regional Water and Sewer District, Henry County, Ohio (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. The District includes all unincorporated areas within the County 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 the Auditor of State prescribes or permits. This basis is similar to the cash receipts and disbursements accounting basis. The District recognizes receipts when received in cash rather than when earned, and recognizes disbursements when paid rather than when a liability is incurred.

These statements include adequate disclosure of material matters, as the Auditor of State prescribes or permits.

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.

Okolona Sanitary Sewer Fund – This fund received United States Department of Agriculture (USDA) grant and Community Development Block Grant (CDBG) monies to fund a sewer line project.

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

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011
(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 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. Unencumbered appropriations lapse at year end.

2. Estimated Resources

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

3. Encumbrances

The Ohio Revised Code requires the District to reserve (encumber) appropriations when commitments are made. Encumbrances outstanding at year end are carried over, and need not be reappropriated. The District did not use the encumbrance method of accounting as required by Ohio law.

A summary of 2012 and 2011 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 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:

	<u>2012</u>	<u>2011</u>
Demand deposits	<u>\$433,580</u>	<u>\$138,320</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, 2012 AND 2011
(Continued)**

3. BUDGETARY ACTIVITY

Budgetary activity for the years ending December 31, 2012 and 2011 follows:

2012 Budgeted vs. Actual Receipts		
Budgeted Receipts	Actual Receipts	Variance
\$3,268,747	\$3,146,369	(\$122,378)

2010 Budgeted vs. Actual Budgetary Basis Expenditures		
Appropriation Authority	Budgetary Expenditures	Variance
\$3,199,062	\$2,851,109	\$347,953

2011 Budgeted vs. Actual Receipts		
Budgeted Receipts	Actual Receipts	Variance
\$1,428,356	\$1,432,807	\$4,451

2011 Budgeted vs. Actual Budgetary Basis Expenditures		
Appropriation Authority	Budgetary Expenditures	Variance
\$1,384,937	\$1,363,469	\$21,468

4. DEBT

Debt outstanding at December 31, 2012 was as follows:

	Principal	Interest Rate
OPWC Loan #CE836	\$46,511	4.00%
First Mortgage Waterworks Revenue Bonds	140,000	5.00%
OPWC Loan #CE41H	5,285	0.00%
OWDA loan #5633	251,180	3.34%
OWDA loan #5668	100,186	2.00%
OWDA loan #6025	630,161	1.00%
OWDA loan #6026	1,090,238	1.00%
OPWC loan #CE271	60,501	0.00%
OPWC loan #CE56M	116,029	0.00%
Total	\$2,440,091	

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

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011
(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, OPWC loan #CE836, First Mortgage Waterworks Revenue Bonds, 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 2012. The District has not obtained a revised amortization schedule or determined the amount of any additional interest or penalties that may have been assessed.

The Ohio Water Development Authority (OWDA) loan #5633 is being used to finance the SR 108 Filling Home Waterline project. As of December 31, 2012, a final amortization schedule has not been prepared as the project is not yet completed and all loan monies have not yet been disbursed.

The Ohio Water Development Authority (OWDA) loan #5668 is being used to finance a McClure Water Connection project. As of December 31, 2012, a final amortization schedule has not been prepared as the project is not yet completed and all loan monies have not yet been disbursed.

In 2011, the Ohio Water Development Authority (OWDA) loan #6025 was acquired to finance the Okolona Sewer project. As of December 31, 2012, a final amortization schedule has not been prepared as the project is not yet completed and all loan monies have not yet been disbursed.

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.

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

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

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011
(Continued)**

4. DEBT (CONTINUED)

Year ending December 31:	Ohio Water Development Authority McClure #6026	Ohio Public Works Commission Sewer Loan #CE836	Ohio Public Works Commission Road 24 #CE56M	Ohio Public Works Commission Water Loan #CE41H	Ohio Public Works Commission Road P Loan #CE271
2013	\$21,701	\$9,505	\$6,107	\$1,762	\$4,173
2014	43,402	9,504	6,107	1,762	4,173
2015	43,402	9,505	6,107	1,761	4,173
2016	43,402	9,504	6,107		4,173
2017	43,402	9,505	6,107		4,173
2013-2022	217,010	4,752	30,534		20,862
2023-2027	217,010		30,534		18,774
2028-2032	217,010		24,426		
2033-2037	217,010				
2038-2042	195,309				
	<u>\$1,258,658</u>	<u>\$52,275</u>	<u>\$116,029</u>	<u>\$5,285</u>	<u>\$60,501</u>

In addition to the debt noted above the District also has committed to repaying Henry County for an Ohio Water Development Authority loan it issued and paid off in total of \$111,898 for the purpose of forming the District, a 2009 loan of \$5,000 for payment of an environmental report, a 2010 loan of \$40,000, and a 2012 loan of \$30,000 for general operating expenses. There are currently no agreements or repayment schedules with terms for the repayment of these obligations.

5. RISK MANAGEMENT

Risk Pool Membership

The District belongs to the Ohio Plan Risk Management, Inc. (OPRM) - formerly known as the Ohio 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% (41.5% effective November 1, 2011, 40% through October 31, 2011 and 17.5% through October 31, 2010) of the premium and losses on the first \$250,000 casualty treaty and 10% 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 782 and 761 members as of December 31, 2011 and 2010 respectively.

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

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011
(Continued)**

5. RISK MANAGEMENT (CONTINUED)

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 retained earnings at December 31: 2011 and 2010 (the latest information available).

	2011	2010
Assets	\$12,501,280	\$12,036,541
Liabilities	(5,328,761)	(4,845,056)
Members' Equity	\$7,172,519	\$7,191,485

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

6. SUBSEQUENT EVENTS

The District has been approved for Division of Environmental Financial Assistance (DEFA), Principal Forgiveness monies of \$417,580 and a 30 year 1.98% DEFA loan of \$1,172,887 for a waterline connection to McClure. Community Development Block Grant (CDBG) monies in the amount of \$500,000 have also been approved to help finance the project.

Awarded contractors and outstanding amounts at December 31, 2012 are as follows:

Engineering (Poggemeyer Design Group)	\$280,700.00
Speer Bros. Inc (A).	\$960,512.00
Gateway Tank (B)	\$845,200.00

As of December 31, 2012, no DEFA or CDBG monies have been received or disbursed.

7. COMPLIANCE

- Contrary to the Ohio Administrative Code a cash journal, detailed revenue ledger, detailed disbursement ledger, and purchase orders were not utilized.
- Contrary to the Ohio Revised Code, \$1,045,000 of monies from the United States Department of Agriculture was not posted to a separate fund.

HENRY COUNTY REGIONAL WATER AND SEWER DISTRICT
HENRY COUNTY

FEDERAL AWARDS EXPENDITURES SCHEDULE
FOR THE YEAR ENDED DECEMBER 31, 2012

FEDERAL GRANTOR Pass Through Grantor Program Title	Pass-Through Entity Number	Federal CFDA Number	Disbursements
UNITED STATES DEPARTMENT OF AGRICULTURE			
Direct Assistance			
Water and Waste Disposal Systems for Rural Communities Grant		10.760	\$1,045,000
UNITED STATES DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT			
<i>Passed through the Ohio Department of Development</i>			
Community Development Block Grant	B-W-10-1BF-1	14.228	<u>513,400</u>
Total Federal Awards Expenditures			<u>\$1,558,400</u>

The accompanying notes are an integral part of this schedule.

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

**NOTES TO THE FEDERAL AWARDS EXPENDITURES SCHEDULE
FOR THE YEAR ENDED DECEMBER 31, 2012**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The accompanying Federal Awards Expenditures Schedule (the Schedule) reports Henry County Regional Water and Sewer District's federal award program's disbursements. The Schedule has been prepared on the cash basis of accounting.



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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 Henry County Regional Water and Sewer District, Henry County, Ohio (the District) as of and for the years ended December 31, 2012 and 2011, and the related notes to the financial statements, and have issued our report thereon dated May 15, 2013, wherein we noted the District followed accounting financial reporting provisions of Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03 permit, described in Note 1.

Internal Control Over Financial Reporting

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

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or a combination of internal control deficiencies resulting in a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the District's financial statements. We consider findings 2012-003, 2012-005 and 2012-006 described in the accompanying schedule of findings to be material weaknesses.

Compliance and Other Matters

As part of reasonably assuring whether the District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, opining on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed instances of noncompliance or other matters we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2012-001 through 2012-004 and 2012-007.

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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.

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive style with a large, looping "D" and "Y".

Dave Yost
Auditor of State

May 15, 2013



Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

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

To the Board of Trustees:

Report on Compliance for Each Major Federal Program

We have audited Henry County Regional Water and Sewer District's, Henry County, Ohio (the District), compliance with the applicable requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133, Compliance Supplement* that could directly and materially affect each of Henry County Regional Water and Sewer District's major federal programs for the year ended December 31, 2012. The *Summary of Auditor's Results* in the accompanying schedule of findings identifies the District's major federal programs.

Management's Responsibility

The District's Management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to opine on the District's compliance for each of the District's major federal programs based on our audit of the applicable compliance requirements referred to above. Our compliance audit followed auditing standards generally accepted in the United States of America; the standards for financial audits included in the Comptroller General of the United States' *Government Auditing Standards*; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. These standards and OMB Circular A-133 require us to plan and perform the audit to reasonably assure whether noncompliance with the applicable compliance requirements referred to above that could directly and materially affect a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe our audit provides a reasonable basis for our compliance opinion on the District's major programs. However, our audit does not provide a legal determination of the District's compliance.

Basis for Qualified Opinion on the Water and Waste Disposal Systems for Rural Communities

As described in finding 2012-008 in the accompanying schedule of findings, the District did not comply with requirements regarding cash management applicable to its Water and Waste Disposal Systems for Rural Communities major federal program. Compliance with this requirement is necessary, in our opinion, for the District to comply with requirements applicable to this program.

Qualified Opinion on the Water and Waste Disposal Systems for Rural Communities

In our opinion, except for the noncompliance described in the *Basis for Qualified Opinion on the Water and Waste Disposal Systems for Rural Communities* paragraph, Henry County Regional Water and Sewer District complied, in all material respects, with the requirements referred to above that could directly and materially affect its Water and Waste Disposal Systems for Rural Communities program for the year ended December 31, 2012.

Unmodified Opinion on Each of the Other Major Federal Programs

In our opinion, Henry County Regional Water and Sewer District complied, in all material respects with the requirements referred to above that could directly and materially affect its other major federal program identified in the summary of auditor's results section of the schedule of findings for the year ended December 31, 2012.

Other Matters

The District's response to our noncompliance finding is described in the accompanying schedule of findings. We did not audit the District's response and, accordingly, we express no opinion on it.

Report on Internal Control Over Compliance

The District's management is responsible for establishing and maintaining effective internal control over compliance with the applicable compliance requirements referred to above. In planning and performing our compliance audit, we considered the District's internal control over compliance with the applicable requirements that could directly and materially affect a major federal program, to determine our auditing procedures appropriate for opining on each major federal program's compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not to the extent needed to opine on the effectiveness of internal control over compliance. Accordingly, we have not opined on the effectiveness of the District's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. Therefore, we cannot assure we have identified all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. However, as discussed below, we identified a certain deficiency in internal control over compliance that we consider to be a material weakness.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, when performing their assigned functions, to prevent, or to timely detect and correct, noncompliance with a federal program's applicable compliance requirement. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a federal program's compliance requirement will not be prevented, or timely detected and corrected. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings as item 2012-008 to be a material weakness.

The District's response to our internal control compliance finding is described in the accompanying schedule of findings. We did not audit the District's response and, accordingly, we express no opinion on it.

Henry County Regional Water and Sewer District
Henry County
Independent Auditor's Report on Compliance with Requirements
Applicable to Each Major Federal Program and On Internal Control
Over Compliance Required by OMB Circular A-133
Page 3

This report only describes the scope of our tests of internal control over compliance and the results of this testing based on OMB Circular A-133 requirements. Accordingly, this report is not suitable for any other purpose.

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive style with a large, looping initial "D".

Dave Yost
Auditor of State

May 15, 2013

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

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
DECEMBER 31, 2012 AND 2011**

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of Financial Statement Opinion	Unqualified
(d)(1)(ii)	Were there any material control weaknesses reported at the financial statement level (GAGAS)?	Yes
(d)(1)(ii)	Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)?	No
(d)(1)(iii)	Was there any reported material noncompliance at the financial statement level (GAGAS)?	Yes
(d)(1)(iv)	Were there any material internal control weaknesses reported for major federal programs?	Yes
(d)(1)(iv)	Were there any significant deficiencies in internal control reported for major federal programs?	No
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Unqualified – CFDA #14.228 Qualified – CFDA #10.760
(d)(1)(vi)	Are there any reportable findings under § .510(a)?	Yes
(d)(1)(vii)	Major Programs (list):	Water and Waste Disposal Systems for Rural Communities - CFDA #10.760, and Community Development Block Grant - CFDA #14.228
(d)(1)(viii)	Dollar Threshold: Type A/B Programs	Type A: > \$ 300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	No

**2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS
REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS**

FINDING NUMBER 2012-001

Finding for Recovery

The Village of Florida (the Village) collects utility revenues from Okolona utility customers on behalf of Henry County Regional Water and Sewer District (the District). Per the agreement dated November 24, 2006 between the District and the Village, on or about the first day of every month, the Village of Florida is required to send to the District a payment consisting of all sums collected by the Village from the District's customers during the preceding month. The Village stopped remitting the monthly utility collections in December 2011, although the Village continued to collect the utilities on behalf of the District. At December 31, 2012, the Village of Florida owed the District \$15,831 for utility revenues that were collected on behalf of the District in 2011 and 2012.

In accordance with the foregoing facts, and pursuant to **Ohio Rev. Code Section 117.28**, a Finding for Recovery for public money due, but not collected is hereby issued against the Village of Florida, and in favor of Henry County Regional Water and Sewer District, in the amount of \$15,831.

Officials' Response:

The District has been in contact with the Village of Florida. The Village over the past 2 years has had multiple clerks and the District is letting them learn the system. The money owed to the District is in an account under Okolona in the Florida billing system.

FINDING NUMBER 2012-002

Noncompliance Citation

Ohio Revised Code, § 5705.41(D)(1), states no subdivision or taxing unit shall make any contract or give any order involving the expenditure of money unless there is attached thereto a certificate of the fiscal officer of the subdivision the amount required for the order or contract has been lawfully appropriated for such purpose and is in the treasury or in the process of collection to the credit of an appropriate fund free from any previous encumbrances. Every such contract made without such a certificate shall be void, and no warrant shall be issued in payment of any amount due thereon.

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

1. **"Then and Now" Certificate** – If the fiscal officer can certify both at the time the contract or order was made ("then"), and at the time the fiscal officer is completing the certification ("now"), sufficient funds were available or in the process of collection, to the credit of an appropriate fund free from any previous encumbrances, the Board can authorize the drawing of a warrant for the payment of the amount due. The Board has thirty days from the receipt of the "then and now" certificate to approve payment by ordinance or resolution. Amounts less than \$3,000 may be paid by the fiscal officer without a resolution or ordinance upon completion of the "then and now" certificate, provided the expenditure is otherwise lawful. This does not eliminate any otherwise applicable requirement for approval of expenditures by the Board.

**FINDING NUMBER 2012-002
(Continued)**

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

None of the grant disbursements were certified by the Fiscal Officer at the time the commitments were incurred and there was no evidence the District followed the aforementioned exceptions. Failure to properly certify the availability of funds can result in overspending funds and negative cash fund balances.

Unless the exceptions noted above are used, prior certification is not only required by statute but is a key control in the disbursement process to assure purchase commitments receive prior approval. To improve controls over disbursements and to help reduce the possibility of the District’s funds exceeding budgetary spending limitations, we recommend the Facilitator certify the funds are or will be available prior to obligation by the District. When prior certification is not possible, “then and now” certification should be used.

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

Officials’ Response:

The District does not currently use purchase orders. It will be done for future contracts.

FINDING NUMBER 2012-003

Noncompliance Citation and Material Weakness

Ohio Administrative Code 117-2-02(A) requires all local public offices to maintain an accounting system and accounting records sufficient to enable the public office to identify, assemble, analyze, classify, record and report its transactions. Furthermore, **Ohio Administrative Code 117-02-02(D)** describes the records should include the following:

1. Cash journal, which typically contains the following information: The amount, date, receipt number, check number, account code, purchase order number, and any other information necessary to properly classify the transaction.
2. Receipts ledger, which typically assembles and classifies receipts into separate accounts for each type of receipt of each fund the public office uses. The amount, date, name of the payor, purpose, receipt number, and other information required for the transactions can be recorded on this ledger.

**FINDING NUMBER 2012-003
(Continued)**

3. Appropriation ledger, which may assemble and classify disbursements into separate accounts for, at a minimum, each account listed in the appropriation resolution. The amount, fund, date, check number, purchase order number, encumbrance amount, unencumbered balance, amount of disbursement, uncommitted balance of appropriations and any other information required may be entered in the appropriate columns.

The District's record keeping system had the following deficiencies:

- Separate cash journals were maintained for each bank account, but there was no combined cash journal showing all activity for each fund.
- A detailed receipt ledger was not properly maintained.
- A detailed expenditure/appropriation ledger was not properly maintained.
- Purchase orders were not utilized.

This resulted in the financial statements being materially misstated. The financial statements were adjusted to correct material errors noted during the audit.

We recommend the following:

- A cash journal should be maintained that shows all activity by fund and for the entity overall.
- A receipt ledger should be maintained so as to show a detail of revenues by fund and account code, beginning budgeted amount less individual receipt transaction, a running "budget over/under actual" balance, and a running total of actual receipts by fund and account code.
- An expenditure ledger should be maintained so as to show a detail by fund and account code, beginning appropriated amount less encumbrances and individual expenditures, a running "appropriated less encumbered" balance, and a running total of actual expenditures by fund and account code.
- Purchase orders forms containing the required certification wording should be completed for each transaction and utilized as a tool to encumber appropriations.

Officials' Response:

Currently the District is not on the UAN. An accounting system geared towards water and sewer needs is in the works.

FINDING NUMBER 2012-004

Noncompliance Citation

Ohio Revised Code, Section 5705.10, requires all revenue derived from a source other than the general property tax and which the law prescribes shall be used for a particular purpose is to be paid into a special fund for such purpose.

In 2012, the District comingled \$1,045,000 of receipt and disbursement activity related to United States Department of Agriculture grant monies in the Okolona Sewer project fund.

**FINDING NUMBER 2012-004
(Continued)**

Failure to properly report the revenue and disbursement activity in a separate fund could cause management to draw incorrect conclusions regarding its fiscal position.

Financial activity should be properly reported in the accounting ledgers so that the Board can better assess whether or not financial goals are being met on an ongoing basis and what might be done to better utilize the District's available resources. As part of the monitoring process, the District should review its records to make sure that all amounts are properly reflected in the appropriate funds.

Officials' Response:

The money dispersed from USDA was put into a separate fund labeled "Okolona" fund. Other monies in this fund were collected from the residents in good faith to begin paying on the debt early for the project. This money was all used for the Okolona project and will be separated and corrected in the future.

FINDING NUMBER 2012-005

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:

- United States Department of Agriculture Rural Development receipts of \$1,045,000 were incorrectly posted as Charges for Services in the Okolona Fund rather than intergovernmental receipts in its own separate fund in 2012.
- Proceeds from an Ohio Water Development Authority (OWDA) loan and the corresponding payoff of two loans were not recorded in the accounting records resulting in loan proceeds, debt principal disbursements, capital outlay, interest disbursements, and other disbursements being understated by \$1,125,125, \$1,028,285, \$8,369, \$81,926, and \$6,545, respectively, in the Enterprise funds in 2012.
- A Community Development Block Grant spent on behalf of the District was not recorded to the accounting records resulting in the understatement of intergovernmental receipts and capital outlay by \$513,400 in the Enterprise Funds in 2012.

As a result, the financial statements did not correctly reflect the financial activity of the District. Adjustments ranging from \$83 to \$1,045,000 were posted to the financial statements, and where applicable, accounting records to correct these and other errors.

We recommend the District perform a final review of the financial statements by the Facilitator to ensure errors and omissions are detected and corrected. The review and approval of these reports should be documented in the minutes and on the actual documents.

Officials' Response:

Some of this money did not reach the District. It was paid directly to the Contractor and not recorded as so. This will be corrected in the future, but the District questions why these monies get audited, sometimes three times, depending on where the money comes from.

FINDING NUMBER 2012-006

Reporting and Budgeting Ohio Public Works Commission Money – Material Weakness

Sound accounting practices require money spent on behalf of the District by other governments be posted to the District's ledgers. Furthermore, Ohio Revised Code § 5705.42 deems the funds appropriated, eliminating the need for the District to approve a formal appropriation for these monies, however, this section does require the District to record the appropriation.

The District was the beneficiary of \$184,737 of Ohio Public Works Commission (OPWC) money paid directly to the vendor by OPWC. The District did not record the OPWC activity or the corresponding appropriations on the ledgers of the District. Since OPWC paid the invoices, the District did not receive this cash. In addition, the District did not record appropriations of \$1,045,000 for a grant spent on their behalf by the United States Department of Agriculture.

Auditor of State Bulletin 2000-008 prescribes recording these transactions as receipts and disbursements when the District applies for a project and has administrative responsibilities. The accompanying financial statements and budgetary activity were adjusted to reflect these amounts.

We recommend the District record receipts, disbursements, and appropriations for Ohio Public Works Commission Funds.

Officials' Response:

This money was not dispersed through the District's books for the project. Checks from OPWC are direct deposited into the awarded contractors account. This will be done in the future for OPWC monies acquired.

FINDING NUMBER 2012-007

Noncompliance Citation

The District assumed the water and sewer operations of the Village of McClure on December 31, 2009 per an Assignment and Assumption agreement dated August 5, 2009 between Henry County Regional Water and Sewer District and the Village of McClure. As part of this agreement, the District assumed the responsibility for the Village's debt related to the water and sewer operations. The Waterworks Mortgage Revenue Bonds No. R-1 indicates principal and interest payments are to be made on the first day of October in installments as per the amortization schedule. The corresponding amortization schedule shows the following principal and interest payments have not been paid by the District since they assumed responsibility for the debt from the Village of McClure, Henry County in 2009.

Year:	Principal	Interest
2010	\$21,000	\$7,000
2011	22,000	5,980
2012	23,000	4,850
Total	\$66,000	\$17,830

We recommend the District make payments as required and investigate as to whether any late charges or fines have been assessed due to the noncompliance with the debt issuance payment requirements.

Officials' Response:

The District has been in contact with the loan holder and has had no response or a bill ever sent. The District will continue to work through this issue to resolve it with the help of the Village of McClure.

3. FINDINGS FOR FEDERAL AWARDS

Finding Number	2012-008
CFDA Title and Number	Water and Waste Disposal Systems for Rural Communities - CFDA #10.760
Federal Award Number / Year	2012
Federal Agency	United States Department of Agriculture
Pass-Through Agency	None

Noncompliance and Material Weakness – Cash Management

34 CFR 80.20 (b)(7) states in part, when advances are made by letter-of-credit or electronic transfer of funds methods, the grantee must make drawdowns as close as possible to the time of making disbursements. This has been interpreted as being spent within 30 days. Henry County

The District received \$623,411 of grant money in January 2012 from the United States Department of Agriculture and as of December 31, 2012 and current date the District has a balance of \$206,002.

The District did not record the grant monies in a separate fund. Failure to properly record the receipt and disbursement activity in a separate fund hindered management’s ability to ensure grant funds were disbursed timely.

We recommend District adopt procedures to minimize the time elapsing between the receipt of funds from the USDA and disbursement by the District whenever the advance payment procedure is used. Accounting for the grant activity in a separate fund would better enable the District to monitor the timeliness of disbursements.

Officials’ Response:

The money received from USDA was supposed to pay off the lagoon loan and planning loan help by OWDA. At the time funds were released from USDA, OWDA rolled all loans held by the District for the Okolona project into the construction loan. There was virtually nothing to pay off at that time. This money will be used on the back end of the loan to reduce the overall debt issued by OWDA.

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

**CORRECTIVE ACTION PLAN
OMB CIRCULAR A -133 § .315 (c)
DECEMBER 31, 2012**

Finding Number	Planned Corrective Action	Anticipated Completion Date	Responsible Contact Person
2012-008	The District will spend the remainder of the grant money in a timely manner.	June 30, 2013	Nick Rettig, Facilitator

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

**SCHEDULE OF PRIOR AUDIT FINDINGS
OMB CIRCULAR A -133 § .315 (b)
DECEMBER 31, 2012 AND 2011**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2010-001	Material recommendation to improve monitoring of financial activity	No	Not Corrected. Repeated in this report as finding 2012-005.
2010-002	ORC § 5705.28(B)2(a), for a lack of passing budget or appropriations and ORC 5705.41(B), for expenditures exceeding appropriations	Yes	
2010-003	ORC § 5705.41(D), for a lack of certification of expenditures	No	Not Corrected. Repeated in this report as finding 2012-002.
2010-004	Noncompliance with Waterworks Mortgage Revenue Bonds No. R-1 for not paying principal and interest due	No	Not Corrected. Repeated in this report as finding 2012-007.

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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
JUNE 18, 2013**