



Dave Yost • Auditor of State



**TWIN CITY WATER AND SEWER DISTRICT  
TUSCARAWAS COUNTY**

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# Dave Yost • Auditor of State

## INDEPENDENT AUDITOR'S REPORT

Twin City Water and Sewer District  
Tuscarawas County  
308 Grant Street  
Dennison, Ohio 44621

To the Board of Trustees:

### ***Report on the Financial Statements***

We have audited the accompanying financial statement and related notes of the Twin City Water and Sewer District, Tuscarawas County, Ohio (the District), as of and for the year ended December 31, 2013.

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

Management is responsible for preparing and fairly presenting these financial statements in accordance with the financial reporting provisions Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D) permit; this responsibility includes designing, implementing and maintaining internal control relevant to preparing and fairly presenting financial statements free from material misstatement, whether due to fraud or error.

### ***Auditor's Responsibility***

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

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

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

***Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles***

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

The effects on the financial statement 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 statement 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, 2013, or changes in financial position thereof for the years then ended.

***Opinion on Regulatory Basis of Accounting***

In our opinion, the financial statements referred to above present fairly, in all material respects, the combined cash fund balances of the Twin City Water and Sewer District, Tuscarawas County, Ohio, as of December 31, 2013, 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 Matters***

Our audit was conducted to opine on the financial statement taken as a whole.

The Schedule of Federal Awards Receipts and Expenditures (the Schedule) presents additional analysis as 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 statement.

The Schedule is management's responsibility, and derives from and relates directly to the underlying accounting and other records used to prepare the financial statement. We subjected this Schedule to the auditing procedures we applied to the financial statement. We also applied certain additional procedures, including comparing and reconciling the Schedule directly to the underlying accounting and other records used to prepare the financial statement or to the financial statement itself, 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 statement taken as a whole.

***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated June 25, 2014, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

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

Columbus, Ohio

June 25, 2014

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**TWIN CITY WATER AND SEWER DISTRICT  
TUSCARAWAS COUNTY**

**COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS  
AND CHANGES IN FUND BALANCE (CASH BASIS)  
PROPRIETARY FUND TYPE  
FOR THE YEAR ENDED DECEMBER 31, 2013**

	Proprietary Fund Type Enterprise Funds
<b>Operating Cash Receipts:</b>	
Charges for Services	\$3,375,096
Guarantee Deposits	5,100
	<u>3,380,196</u>
<b>Operating Cash Disbursements:</b>	
Personal Services	872,142
Benefits	492,505
Berm Repairs	55,068
Utilities	317,170
Equipment Repairs	86,193
Supplies and Materials	267,972
Capital Outlay	5,080,923
Guarantee Deposits Refund	5,050
Purchased Services	305,404
	<u>7,482,427</u>
Total Operating Cash Disbursements	<u>7,482,427</u>
Operating (Loss)	<u>(4,102,231)</u>
<b>Non-Operating Cash Receipts:</b>	
Proceed of Loans	3,868,241
Intergovernmental Revenues	1,365,238
Interest	3,238
Other Non-Operating Receipts	291,792
	<u>5,528,509</u>
Total Non-Operating Cash Receipts	<u>5,528,509</u>
<b>Non-Operating Cash Disbursements:</b>	
Debt Service	600,468
Other Non-Operating Cash Disbursements	209,288
	<u>809,756</u>
Total Non-Operating Cash Disbursements	<u>809,756</u>
Net Receipts Over Disbursements	<u>616,522</u>
Cash Fund Balances, January 1	<u>\$2,666,441</u>
<b>Cash Fund Balances, December 31</b>	<b><u>\$3,282,963</u></b>

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

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**TWIN CITY WATER AND SEWER DISTRICT  
TUSCARAWAS COUNTY**

**NOTES TO THE FINANCIAL STATEMENT  
DECEMBER 31, 2013**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Description of the Entity**

The constitution and laws of the State of Ohio establish the rights and privileges for the Twin City Water and Sewer District, Tuscarawas County (the District), as a body corporate and politic. The District is directed by an appointed five-member Board of Trustees. Two Board members each are appointed by the City of Uhrichsville and the Village of Dennison. The remaining Board member is appointed at-large by the Board of Trustees. The District provides water and sewer services to residents of the District.

The District participates in the Public Entities Pool of Ohio, a public entity risk pool. Note 6 to the financial statement provides additional information for this entity. This organization is:

Public Entity Risk Pool:

*A risk-sharing pool that provides property and casualty coverage for its members and assumes the risk of loss up to the limits of the District's policy.*

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.

The investment in STAR Ohio (the State Treasurer's investment pool) is valued at amounts reported by the State Treasurer.

**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 types:

**1. 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 Fund:

**TWIN CITY WATER AND SEWER DISTRICT  
TUSCARAWAS COUNTY**

**NOTES TO THE FINANCIAL STATEMENT  
DECEMBER 31, 2013  
(Continued)**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

OWDA Well Plant Fund - This fund receives loan proceeds and Intergovernmental Revenue from the Ohio Water Development Authority to finance a new well water treatment plant.

**D. 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, object level of control, and appropriations may not exceed estimated resources. Appropriation Authority includes current year appropriations plus encumbrances carried over from the prior year (if any). 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 encumber all commitments required by Ohio law.

A summary of 2013 budgetary activity appears in Note 3.

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

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

**F. Accumulated Leave**

In certain circumstances, such as upon leaving employment, employees are entitled to cash payments for unused leave. The financial statements do 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 was as follows:

**TWIN CITY WATER AND SEWER DISTRICT  
TUSCARAWAS COUNTY**

**NOTES TO THE FINANCIAL STATEMENT  
DECEMBER 31, 2013  
(Continued)**

**2. EQUITY IN POOLED DEPOSITS AND INVESTMENTS (Continued)**

	2013
Demand deposits	\$2,640,791
STAR Ohio	82,257
Cash with fiscal agent	559,915
Total deposits and investments	\$3,282,963

**Deposits:** Deposits are insured by the Federal Deposit Insurance Corporation or collateralized by securities specifically pledged by the financial institution to the District.

At December 31, 2013, \$538,920 of deposits were not insured or collateralized, contrary to Ohio law.

**Investments:** Investments in STAR Ohio are not evidenced by securities that exist in physical or book-entry form.

**Cash with Fiscal Agent:** At fiscal year end, the District had \$559,915 cash held by the fiscal agent, which cannot be identified as an investment or deposit, since it is held in a pool made up of numerous participants (See Note 6 for additional information on Medical Benefits Administrators, Inc., third party administrator).

**3. BUDGETARY ACTIVITY**

Budgetary activity for the year ending December 31, 2013 follows:

2013 Budgeted vs. Actual Receipts		
Budgeted Receipts	Actual Receipts	Variance
\$8,764,879	\$8,908,705	\$143,826

2013 Budgeted vs. Actual Budgetary Basis Expenditures		
Appropriation Authority	Budgetary Expenditures	Variance
\$9,517,784	\$8,292,183	\$1,225,601

**TWIN CITY WATER AND SEWER DISTRICT  
TUSCARAWAS COUNTY**

**NOTES TO THE FINANCIAL STATEMENT  
DECEMBER 31, 2013  
(Continued)**

**4. DEBT**

Debt outstanding at December 31, 2013 was as follows:

	<u>Principal</u>	<u>Interest Rate</u>
<b>USDA FMHA Loans</b>		
Uhrichsville Dennison No. 91-10	\$ 1,124,000	5%
Uhrichsville Dennison No. 91-14	67,000	5%
Roanoke No. 91-09	178,477	5%
Roanoke No. 97-01	187,000	6.125%
Midvale No. 92-03	385,000	6.125%
Midvale No. 92-05	223,000	6%
Midvale No. 92-07	201,000	6.25%
Midvale No. 92-08	45,000	6%
<b>Total</b>	<u>2,410,477</u>	
<b>Ohio Water Development Authority Loans</b>		
Loan No. 4462	1,065,403	1%
Loan No. 5408	164,076	1%
Loan No. 6085	154,602	1%
Loan No. 6215	4,222,473	0%
<b>Total</b>	<u>5,606,554</u>	
<b>Ohio Public Works Commission Loans:</b>		
Loan CN033	86,074	0%
Loan CN31P	260,811	0%
<b>Total</b>	<u>346,885</u>	
<b>USDA Sewer System Revenue Bonds</b>	<u>2,419,000</u>	4.5%
<b>Total</b>	<u>2,419,000</u>	
<b>Grand Total</b>	<u><u>\$ 10,782,916</u></u>	

Debt relating to the United States Department of Agriculture Farmers Home Administration (USDA FMHA) loans, Ohio Water Development Authority (OWDA) loans and Ohio Public Works Commission (OPWC) loans were incurred for utility construction projects. Property owned by the District and revenue earned by the District has been pledged to repay these debts.

Of the Farmers Home Administration Loans, the Midvale Sewer Improvement Project Loan Nos. 92-07 and 92-08, are being reimbursed to the District by Tuscarawas County, as set forth in an agreement with the County.

The District issued USDA Sewer System Revenue Bonds in September 2001 in the amount of \$2,828,000 to finance improvements at the wastewater treatment plant, which were mandated by the Ohio EPA.

The District was approved for a \$1,529,660 loan from the Ohio Water Development Authority to reline the trunk sewer line in 2006.

**TWIN CITY WATER AND SEWER DISTRICT  
TUSCARAWAS COUNTY**

**NOTES TO THE FINANCIAL STATEMENT  
DECEMBER 31, 2013  
(Continued)**

**4. DEBT (Continued)**

The District also received \$383,411 loan (#5408) from the Ohio Water Development Authority for a rotary fan sludge press project in 2010.

The District was approved for a \$4,244,156 loan (#6215) from the Ohio Water Development Authority to construct a new well water treatment plant in 2012. The loan is to be repaid over 30 years, at 0% interest, using water service charges. At December 31, 2013, the project was not yet complete. An amortization schedule has not yet been determined for this obligation. Loan proceeds received during 2013 totaled \$3,584,742.

The District was awarded a loan (#CN31P) in 2012 in the amount of \$299,000 from the Ohio Public Works Commission for the installation of an ultraviolet disinfection system. Revenue earned by the District has been pledged to repay this debt over 20 years, at 0% interest. At December 31, 2013, the project was not yet complete. An amortization schedule has not yet been determined for this obligation. Loan proceeds received during 2013 totaled \$260,810.

In 2013, the District was approved for a loan (#6085) in the amount of \$1,867,874 from the Ohio Water Development Authority to replace equipment of the 6<sup>th</sup> Street lift station to prevent sewage overflows during wet-weather events. The loan is to be repaid over 20 years, at an interest rate of 1%, using wastewater service charges. At December 31, 2013, the project was not yet complete. An amortization schedule has not yet been determined for this obligation. Loan proceeds received during 2013 totaled \$22,689.

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

Year ending December 31:	USDA Sewer System	USDA FMHA Loans	OWDA Loans	OPWC Loans
	Revenue Bonds			
2014	\$152,855	\$296,151	\$ 95,082	\$ 14,346
2015	153,875	294,418	95,082	14,346
2016	153,760	296,323	95,082	14,346
2017	153,555	298,098	95,082	14,346
2018	154,260	245,314	95,082	14,346
2019-2023	767,870	1,226,966	475,408	14,346
2024-2028	768,675	728,780	348,564	
2029-2033	767,985	24,428	21,038	
2034-2038	769,255			
2039-2041	460,565			
Total	<u>\$4,302,655</u>	<u>\$3,410,478</u>	<u>\$ 1,320,420</u>	<u>\$ 86,076</u>

**5. 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.

**TWIN CITY WATER AND SEWER DISTRICT  
TUSCARAWAS COUNTY**

**NOTES TO THE FINANCIAL STATEMENT  
DECEMBER 31, 2013  
(Continued)**

**5. RETIREMENT SYSTEM (Continued)**

The Ohio Revised Code also prescribes contribution rates. For 2013, 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, 2013.

**6. RISK MANAGEMENT**

The District is exposed to various risks of property and casualty losses, and injuries to employees.

The District insures against injuries to employees through the Ohio Bureau of Worker's Compensation.

The District belongs to the Public Entities Pool of Ohio (PEP), a risk-sharing pool available to Ohio local governments. PEP provides property and casualty coverage for its members. York Risk Pooling Services, Inc. (formerly known as American Risk Pooling Consultants, Inc.), functions as the administrator of PEP and provides underwriting, claims, loss control, risk management, and reinsurance services for PEP. PEP is a member of the American Public Entity Excess Pool (APEEP), which is also administered by ARPCO. Member governments pay annual contributions to fund PEP. PEP pays judgments, settlements and other expenses resulting from covered claims that exceed the members' deductibles.

Casualty and Property Coverage

APEEP provides PEP with an excess risk-sharing program. Under this arrangement, PEP retains insured risks up to an amount specified in the contracts. At December 31, 2012, PEP retained \$350,000 for casualty claims and \$150,000 for property claims.

The aforementioned casualty and property reinsurance agreement does not discharge PEP's primary liability for claims payments on covered losses. Claims exceeding coverage limits are the obligation of the respective government.

Financial Position

PEP's financial statements (audited by other accountants) conform with generally accepted accounting principles, and reported the following assets, liabilities and retained earnings at December 31, 2012 and 2011 (the latest information available):

	<u>2012</u>	<u>2011</u>
Assets	\$34,389,569	\$33,362,404
Liabilities	<u>(14,208,353)</u>	<u>(14,187,273)</u>
Net Position	<u>\$20,181,216</u>	<u>\$19,175,131</u>

At December 31, 2012 and 2011, respectively, the liabilities above include approximately \$13.1 million and \$13.0 million of estimated incurred claims payable. The assets above also include approximately \$12.6 million and \$12.1 million of unpaid claims to be billed to approximately 466 and 455 member governments in the future, as of December 31, 2012 and 2011, respectively. These amounts will be included in future contributions from members when the related claims are due for payment. As of December 31, 2012, the Government's share of these unpaid claims collectible in future years is approximately \$42,000.

**TWIN CITY WATER AND SEWER DISTRICT  
TUSCARAWAS COUNTY**

**NOTES TO THE FINANCIAL STATEMENT  
DECEMBER 31, 2013  
(Continued)**

**6. RISK MANAGEMENT (Continued)**

Based on discussions with PEP, the expected rates PEP charges to compute member contributions, which are used to pay claims as they become due, are not expected to change significantly from those used to determine the historical contributions detailed below. By contract, the annual liability of each member is limited to the amount of financial contributions required to be made to PEP for each year of membership. The District contributed \$48,287 to PEP in 2013.

After one year of membership, a member may withdraw on the anniversary of the date of joining PEP, if the member notifies PEP in writing 60 days prior to the anniversary date. Upon withdrawal, members are eligible for a full or partial refund of their capital contributions, minus the subsequent year's contribution. Withdrawing members have no other future obligation to PEP. Also upon withdrawal, payments for all casualty claims and claim expenses become the sole responsibility of the withdrawing member, regardless of whether a claim occurred or was reported prior to the withdrawal.

**Self Insurance**

The District is also self-insured for employee health insurance. The District pays a premium, determined annually, by Medical Benefits Administrators, Inc., their third-party self insurance administrator. The Self Insurance Fund pays covered claims to service providers, and any remaining funds are held in a Money Market Account by Medical Benefits Administrators, Inc. as a reserve to be used for future claims.

**7. CONTINGENT LIABILITIES**

Amounts grantor agencies pay to the District are subject to audit and adjustment by the grantor, principally the federal government. The grantor may require refunding any disallowed costs. Management cannot presently determine amounts grantors may disallow. However, based on prior experience, management believes any refunds would be immaterial.

**8. RELATED PARTY TRANSACTION**

A Trustee is part owner of a law firm from which the District obtained legal services during the year. The District paid \$38,000 for these services.

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**TWIN CITY WATER AND SEWER DISTRICT  
TUSCARAWAS COUNTY**

**SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES  
FOR THE YEAR ENDED DECEMBER 31, 2013**

Federal Grantor/ Pass Through Grantor/ Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Expenditures
<b><u>U. S. ENVIRONMENTAL PROTECTION AGENCY</u></b>				
<i>Passed Through Ohio Water Development Authority</i>				
Capitalization Grants for Drinking Water State Revolving Funds	FS391442-0008	66.468	\$ 4,602,586	\$ 4,602,586
<b>Total Federal Awards Receipts and Expenditures</b>			<b><u>\$ 4,602,586</u></b>	<b><u>\$ 4,602,586</u></b>

The notes to the Federal Awards Receipts and Expenditures Schedule are an integral part of this statement.

**TWIN CITY WATER AND SEWER DISTRICT  
TUSCARAWAS COUNTY**

**NOTES TO THE SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES  
FISCAL YEAR ENDED DECEMBER 31, 2013**

**NOTE A – SIGNIFICANT ACCOUNTING POLICIES**

The accompanying Schedule of Federal Awards Receipts and Expenditures (the Schedule) reports the District's federal award program's receipts and disbursements. The schedule has been prepared on the cash basis of accounting.

**NOTE B – CAPITALIZATION GRANTS FOR DRINKING WATER STATE REVOLVING FUNDS**

The receipts reported by the District include both Intergovernmental Revenue and Proceeds of Notes. The balance of this loan at December 31, 2013 was \$4,222,473.



# Dave Yost • Auditor of State

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

Twin City Water and Sewer District  
Tuscarawas County  
308 Grant Street  
Dennison, Ohio 44621

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 statement of the Twin City Water and Sewer District, Tuscarawas County, Ohio (the District), as of and for the year ended December 31, 2013, and the related notes to the financial statement, and have issued our report thereon dated June 25, 2014, wherein we noted the District followed financial reporting provisions Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03 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.

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 a certain deficiency in internal control over financial reporting that we consider a material weakness.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or a combination of internal control deficiencies resulting in a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the District's financial statements. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider Finding 2013-001 described in the accompanying Schedule of Findings to be a material weakness.

***Compliance and Other Matters***

As part of reasonably assuring whether the District's financial statement is free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, opining on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed instances of noncompliance or other matters we must report under *Government Auditing Standards*, which are described in the accompanying Schedule of Findings as items 2013-002 and 2013-003.

***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

June 25, 2014



# Dave Yost • Auditor of State

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

Twin City Water and Sewer District  
Tuscarawas County  
308 Grant Street  
Dennison, Ohio 44621

To the Board of Trustees:

### ***Report on Compliance for Each Major Federal Program***

We have audited the Twin City Water and Sewer District's, Tuscarawas 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 the District's major federal program for the year ended December 31, 2013. The *Summary of Audit Results* in the accompanying Schedule of Findings identifies the District's major federal program.

### ***Management's Responsibility***

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

### ***Auditor's Responsibility***

Our responsibility is to opine on the District's compliance for each of the District's major federal program 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 program. However, our audit does not provide a legal determination of the District's compliance.

***Basis for Qualified Opinion on Capitalization Grants for Drinking Water State Revolving Funds***

As described in Finding 2013-004 in the accompanying Schedule of Findings, the District did not comply with requirements regarding the Davis-Bacon Act applicable to its Capitalization Grants for Drinking Water State Revolving Funds 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 Capitalization Grant for Drinking Water State Revolving Funds***

In our opinion, except for the noncompliance described in the *Basis for Qualified Opinion on Capitalization Grant for Drinking Water State Revolving Funds* paragraph, the District complied, in all material respects, with the requirements referred to above that could directly and materially affect its Capitalization Grant for Drinking Water State Revolving Funds for the year ended December 31, 2013.

***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 2013-004 to be a material weakness.

The District's response to our internal control over 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.

Twin City Water and Sewer District  
Tuscarawas County  
Independent Auditor's Report on Internal Control Over  
Financial Reporting and on Compliance and Other Matters  
Required by *Government Auditing Standards*  
Page 2

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 "D" and "Y".

**Dave Yost**  
Auditor of State

Columbus, Ohio

June 25, 2014

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**TWIN CITY WATER AND SEWER DISTRICT  
TUSCARAWAS COUNTY**

**SCHEDULE OF FINDINGS  
OMB CIRCULAR A-133 § .505  
DECEMBER 31, 2013**

**1. SUMMARY OF AUDITOR'S RESULTS**

<i>(d)(1)(i)</i>	<b>Type of Financial Statement Opinion</b>	Unmodified
<i>(d)(1)(ii)</i>	<b>Were there any material control weaknesses reported at the financial statement level (GAGAS)?</b>	Yes
<i>(d)(1)(ii)</i>	<b>Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)?</b>	No
<i>(d)(1)(iii)</i>	<b>Was there any reported material noncompliance at the financial statement level (GAGAS)?</b>	Yes
<i>(d)(1)(iv)</i>	<b>Were there any material internal control weaknesses reported for major federal programs?</b>	Yes
<i>(d)(1)(iv)</i>	<b>Were there any significant deficiencies in internal control reported for major federal programs?</b>	No
<i>(d)(1)(v)</i>	<b>Type of Major Programs' Compliance Opinion</b>	Unmodified, except for Section D, Davis-Bacon Act was modified.
<i>(d)(1)(vi)</i>	<b>Are there any reportable findings under § .510(a)?</b>	Yes
<i>(d)(1)(vii)</i>	<b>Major Programs (list):</b> <ul style="list-style-type: none"> <li>• CFDA #66.468 – Capitalization Grants for Drinking Water State Revolving Funds</li> </ul>	
<i>(d)(1)(viii)</i>	<b>Dollar Threshold: Type A/B Programs</b>	Type A: > \$ 300,000 Type B: all others
<i>(d)(1)(ix)</i>	<b>Low Risk Auditee?</b>	No

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

**Finding Number 2013-001**

**Material Weakness – Financial Reporting**

Errors were noted in the financial statement that required audit adjustments and reclassifications as follows:

- An Intergovernmental receipt amount received from the Ohio Public Works Commission (OPWC) totaling \$322,574 was misclassified as Loan Proceeds within the District's OPWC UV Lighting Fund.
- Intergovernmental receipts received from the Ohio Water Development Authority (OWDA) totaling \$1,017,844 were misclassified as Loan Proceeds within the District's OWDA Well Plant Fund.
- Loan Proceeds of \$4,921 and \$157,086 received from the OWDA were misclassified as Miscellaneous in the Water Operating Fund and Other Revenue in the Water Capital Improvement Fund, respectively.
- Loan Proceeds and Other Non-Operating Disbursements were understated, due to one OPWC on-behalf transaction not being posted to the ledgers by the District.
- Inter-fund activity of \$944,162 was eliminated from the financial statement.

**TWIN CITY WATER AND SEWER DISTRICT  
TUSCARAWAS COUNTY**

**SCHEDULE OF FINDINGS  
OMB CIRCULAR A-133 § .505  
DECEMBER 31, 2013  
(Continued)**

<b>2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)</b>
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**Finding Number 2013-001 (Continued)**

**Material Weakness – Financial Reporting (Continued)**

Sound financial reporting is the responsibility of the Treasurer and Board of Trustees and is essential to ensure the information provided to the readers of the financial statement is complete and accurate. The financial statement has been adjusted accordingly.

The District should review Auditor of State Bulletin 2000-008 which provides guidance for accounting of on-behalf grants or improvement projects. To help ensure the District's financial statement and notes to the financial statement are complete and accurate, the District should adopt policies and procedures, including a final review of the financial statement and notes by the Treasurer and Board of Trustees, to help identify and correct errors and omissions.

**Officials' Response:** The District will take corrective action to ensure proper classification.

**Finding Number 2013-002**

**Noncompliance**

Ohio Rev. Code Section 2921.42(A)(4) states that no public official shall knowingly do any of the following: Have an interest in the profits or benefits of a public contract entered into by or for the use of the political subdivision or governmental agency or instrumentality with which the public official is connected.

Ohio Rev. Code Section 2921.42(C) states that this section does not apply to a public contract in which a public official, member of a public official's family, or one of the public official's business associates has an interest, when all of the following apply:

1. The subject of the public contract is necessary supplies or services for the political subdivision or governmental agency or instrumentality involved;
2. The supplies or services are unobtainable elsewhere for the same or lower cost, or are being furnished to the political subdivision or governmental agency or instrumentality as part of a continuing course of dealing established prior to the public official's becoming associated with the political subdivision or governmental agency or instrumentality involved;
3. The treatment accorded the political subdivision or governmental agency or instrumentality is either preferential to or the same as the accorded other customers or clients in similar transactions;
4. The entire transaction is conducted at arm's length, with full knowledge by the political subdivision or governmental agency or instrumentality involved, of the interest of the public official, member of the public official's family, or business associate, and the public official takes no part in the deliberations or decision of the political subdivision or governmental agency or instrumentality with respect to the public contract.

**TWIN CITY WATER AND SEWER DISTRICT  
TUSCARAWAS COUNTY**

**SCHEDULE OF FINDINGS  
OMB CIRCULAR A-133 § .505  
DECEMBER 31, 2013  
(Continued)**

<b>2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)</b>
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**Finding Number 2013-002 (Continued)**

**Noncompliance – Ohio Rev. Code Sections 2921.42(A)(4) and 2921.42(C) (Continued)**

Furthermore, Ohio Rev. Code Section 102.03(D) provides that no public official or employee shall use or authorize the use of the authority or influence of office or employment to secure anything of value or the promise or offer of anything of value that is of such a character as to manifest a substantial and improper influence upon the public official or employee with respect to that person's duties.

During 2013, the law firm where District Board Member James Ong was a partner was paid \$38,000 for legal services related to the purchase agreements, settlements, right-of-ways, easements, bidding and funding of the District's well plant project. This Board Member failed to remove himself from the deliberations and decision of the District with respect to the public contract, as evidenced by the minutes of the regular meeting held on May 21, 2009, wherein this District Board Member participated in the vote to permit himself and the District Superintendent to negotiate land purchase for proposed water wells and for the engineering cost. Mr. Ong then billed the District for the legal services he provided for this project. By participating in deliberations and decisions that require legal work to be performed, Mr. Ong directly impacted the number of billable hours that he worked for the District.

When the District chooses to enter into a public contract with a public official, a member of a public official's family, or one of the public official's business associates, the District should ensure that all of the four requirements provided by Ohio Rev. Code Section 2921.41(C) are met. By taking such steps, the District will ensure that monies are properly spent in accordance with these Ohio Rev. Code Sections.

This matter will be referred to the Ohio Ethics Commission for whatever action is deemed necessary.

**Officials' Response:** No response.

**Finding Number 2013-003**

**Noncompliance**

Ohio Rev. Code Section 5705.41(D) requires that 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 Treasurer of the subdivision that the amount required to meet the obligation 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. This certificate need be signed only by the subdivision's fiscal officer. Every 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 standard requirement stated above that a Treasurer's certificate must be obtained prior to a subdivision or taxing authority entering into a contract or order involving the expenditure of money. The main exceptions are: "then and now" certificates, blanket certificates, and super blanket certificates, which are provided for in sections 5705.41(D)(1) and 5705.41(D)(3), respectively, of the Ohio Revised Code.

**TWIN CITY WATER AND SEWER DISTRICT  
TUSCARAWAS COUNTY**

**SCHEDULE OF FINDINGS  
OMB CIRCULAR A-133 § .505  
DECEMBER 31, 2013  
(Continued)**

<b>2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)</b>
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**Finding Number 2013-003 (Continued)**

**Noncompliance – Ohio Rev. Code Section 5705.41(D) (Continued)**

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

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

**2. Blanket Certificate** – Treasurer’s may prepare “blanket” certificates for a certain sum of money not in excess of an amount established by resolution or ordinance adopted by a majority of the members of the legislative authority against any specific line item account over a period not running beyond the end of the current fiscal year. The blanket certificates may, but need not, be limited to a specific vendor. Only one blanket certificate may be outstanding at one particular time for any one particular line item appropriation.

**3. Super Blanket Certificate** – The District may also make expenditures and contracts for any amount from a specific line-item appropriation account in a specified fund upon certification of the fiscal officer for most professional services, fuel, oil, food items, and any other specific recurring and reasonably predictable operating expense. This certification is not to extend beyond the current year. More than one super blanket certificate may be outstanding at a particular time for any line item appropriation.

During 2013, 85% of expenditures tested were not certified by the District prior to incurring the obligation. It was also found that neither of the two exceptions above were utilized for the items found to be in noncompliance. If prior certification is not possible, “then and now” certifications should be used.

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 that purchase commitments receive prior approval. To improve controls over disbursement and to help reduce the possibility of the District’s funds exceeding budgetary spending limitations, we recommend the Treasurer 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.

The Treasurer should certify purchases made with federal and state revenues to which section 5705.41(D) applies. The Treasurer should also sign the certification at the time the District incurs a commitment, and only when the requirements of 5705.41(D) are satisfied.

**Officials’ Response:** The District will take corrective action to certify that funds are available.

**TWIN CITY WATER AND SEWER DISTRICT  
TUSCARAWAS COUNTY**

**SCHEDULE OF FINDINGS  
OMB CIRCULAR A-133 § .505  
DECEMBER 31, 2013  
(Continued)**

**3. FINDING FOR FEDERAL AWARD**

<b>Finding Number</b>	2013-004
<b>CFDA Title and Number</b>	CFDA #66.468 – Capitalization Grants for Drinking Water State Revolving Funds
<b>Federal Award Number / Year</b>	FS391442-0008
<b>Federal Agency</b>	U.S. Department of Environmental Protection
<b>Pass-Through Agency</b>	Ohio Water Development Authority

**Noncompliance and Material Weakness – Section D – Davis-Bacon Act**

29 C.F.R. Section 5.5(a)(3)(ii) states the contractor shall submit weekly, for each week in which any contract work is performed, a copy of all payrolls to the District if the agency is a party to the contract, but if the agency is not such a party, the contractor will submit the payrolls to the applicant, sponsor, or owner, as the case may be, for transmission to the District. 29 C.F.R. Section 5.6(a)(2) states that payrolls and Statements of Compliance submitted pursuant to Section 5.5(a)(3)(ii) shall be preserved by the federal agency for a period of 3 years from the date of completion of the contract and shall be produced at the request of the Department of Labor at any time during the 3-year period. 40 U.S.C. 3141-3144, 3146, and 3147 requires that contractors or subcontractors working on construction contracts in excess of \$2,000 financed by the federal assistance fund must be paid wages not less than those established for the locality of the project (prevailing wage rates) by the Department of Labor.

During 2013, contractual work performed on the Well Water Treatment Plant project was subject to the above code sections by the following contractors: Dave Sugar Excavating, Workman Industrial Services, Inc., and Layne Christensen Co. The District did not maintain all certified payrolls obtained from the various contractors. As a result, the District was unable to establish the dates for which work was actually performed by these contractors; therefore, a determination of the total number of certified payrolls the District failed to maintain could not be performed.

The District failed to implement internal control procedures over Davis-Bacon Act requirements as they pertain to the Capitalization Grants for Drinking Water State Revolving Funds Grant which increases the risk that federal grant monies could be spent for unauthorized or ineligible purposes.

The District should review the aforementioned sections of code and grant agreement with the Ohio Water Development Authority. Internal control procedures should be implemented to help ensure the District meets Davis-Bacon Act requirements. This will help reduce the risk that grant monies are spent for unauthorized or ineligible transactions.

**Officials' Response:** For future projects, the District's engineering firm will conduct all wage interviews and the District will maintain all certified payrolls.

**TWIN CITY WATER AND SEWER DISTRICT  
TUSCARAWAS COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS  
OMB CIRCULAR A-133 § .315(b)  
DECEMBER 31, 2013**

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>
2012-001	Material Weakness – posting of receipts and transfers.	No	Not Corrected; Reissued as Finding 2013-001.
2012-002	40 C.F.R. 31.36(b)(1), Procurement policy for federal expenditures.	No	Corrective Action Taken: On April 18, 2013, the District adopted the Twin City Water & Sewer District Procurement Procedure Policy.

**TWIN CITY WATER AND SEWER DISTRICT  
TUSCARAWAS COUNTY**

**CORRECTIVE ACTION PLAN  
OMB CIRCULAR A-133 § .315(c)  
FOR THE YEAR ENDED DECEMBER 31, 2013**

Finding Number	Planned Corrective Action	Anticipated Completion Date	Responsible Contact Person
2013-004	For future projects, the District's engineering firm will conduct all wage interviews and the District will maintain all certified payrolls.	Immediately	Donnie Fawcett, Superintendent

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# Dave Yost • Auditor of State

**TWIN CITY WATER AND SEWER DISTRICT**

**TUSCARARAWAS 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  
JULY 10, 2014**