



OHIO AUDITOR OF STATE
KEITH FABER



**LUCAS SOIL AND WATER CONSERVATION DISTRICT
LUCAS COUNTY**

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OHIO AUDITOR OF STATE KEITH FABER



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INDEPENDENT AUDITOR'S REPORT

Lucas Soil and Water Conservation District
Lucas County
130-A West Dudley Street
Maumee, Ohio 43537

To the Board of Supervisors:

Report on the Financial Statements

We have audited the accompanying financial statements of the cash balances, receipts and disbursements for each fund and related notes of Lucas Soil and Water Conservation District, Lucas County, Ohio (the District) as of and for the years ended December 31, 2018 and 2017.

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 the Ohio Department of Agriculture permits; this responsibility includes designing, implementing and maintaining internal control relevant to preparing and fairly presenting financial statements free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

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

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

As described in Note 2 of the financial statements, the District prepared these financial statements using the accounting basis permitted by the financial reporting provisions of the Ohio Department of Agriculture, which is an accounting basis other than accounting principles generally accepted in the United States of America (GAAP), to satisfy requirements.

Although the effects on the financial statements of the variances between the regulatory accounting basis and GAAP are not reasonably determinable, we presume they are material.

Though the District does not intend these statements to conform to GAAP, auditing standards generally accepted in the United States of America require us to include an adverse opinion on GAAP. However, the adverse opinion does not imply the amounts reported are materially misstated under the accounting basis the Ohio Department of Agriculture permits. Our opinion on this accounting basis is in the *Opinion on Regulatory Basis of Accounting* paragraph below.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the *Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles* paragraph, the financial statements referred to above do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the District as of December 31, 2018 and 2017, 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 cash balances, receipts and disbursements for each fund of Lucas Soil and Water Conservation District, Lucas County, Ohio as of and for the years ended December 31, 2018 and 2017 in accordance with the financial reporting provisions the Ohio Department of Agriculture permits, described in Note 2.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 4, 2019, 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.



Keith Faber
Auditor of State

Columbus, Ohio

October 4, 2019

Lucas Soil and Water Conservation District
Lucas County, Ohio
Combined Statement of Receipts, Disbursements
and Changes in Fund Balances (Regulatory Cash Basis)
For the Year Ended December 31, 2018

	District Fund	Special Fund	Totals (Memorandum Only)
Cash Receipts			
Grants			
Local Government		\$133,700	\$133,700
State Government	\$196,896	162,268	359,164
Gifts and Contributions		1,560	1,560
Sale of Products/Materials	43,712		43,712
Rentals	1,000		1,000
Farm Harvest Income	88,382		88,382
Conservation Camp Income	12,055		12,055
Other Revenue	5,996	1,107	7,103
<i>Total Cash Receipts</i>	<u>348,041</u>	<u>298,635</u>	<u>646,676</u>
Cash Disbursements			
Great Lakes Restoration Initiative - Nutrient Reduction Program	98,632		98,632
Lake Erie - Conservation Reserve Enhancement Program	13,480		13,480
Rain Garden Initiative	173		173
Salaries		185,144	185,144
Supplies	4,346		4,346
Equipment	11,363	1,682	13,045
Contract Services/Cost Share Payment	39,463		39,463
Rentals	328	15,600	15,928
Service Fees	1,010		1,010
Information and Education	11,170		11,170
Travel and Expenses	2,563		2,563
Advertising and Printing	4,603		4,603
OPERS		25,290	25,290
Worker's Compensation		1,825	1,825
Hospitalization		25,215	25,215
Medicare		2,621	2,621
Product/Materials for Resale	20,922		20,922
Farm Expense	36,569		36,569
Conservation Camp Expenses	13,095		13,095
Vehicle Repairs / Fuel / Maintenance	28,516		28,516
Liability Insurance	6,334		6,334
Annual Meeting/Banquet	1,479		1,479
Other	7,566		7,566
<i>Total Cash Disbursements</i>	<u>301,612</u>	<u>257,377</u>	<u>558,989</u>
<i>Net Change in Fund Cash Balances</i>	46,429	41,258	87,687
<i>Fund Cash Balances, January 1</i>	<u>249,014</u>	<u>200,434</u>	<u>449,448</u>
Fund Cash Balances, December 31			
Restricted	23,587		23,587
Assigned		14,587	14,587
Unassigned	271,856	227,105	498,961
<i>Fund Cash Balances, December 31</i>	<u>\$295,443</u>	<u>\$241,692</u>	<u>\$537,135</u>

See accompanying notes to the basic financial statements

Lucas Soil and Water Conservation District

Lucas County

Notes to the Financial Statements

For the Year Ended December 31, 2018

Note 1 – Reporting Entity

The constitution and laws of the State of Ohio establish the rights and privileges of Lucas Soil and Water Conservation District, Lucas County, (the District) as a body corporate and politic. A publicly elected five-member District Board of Supervisors directs the District. The District provides local leadership in the conservation of natural resources and stewardship of agricultural lands.

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

Note 2 – Summary of Significant Accounting Policies

Basis of Presentation

The District's financial statements consist of a combined statement of receipts, disbursements and changes in fund balances (cash basis) for all funds.

Fund Accounting

The District uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The funds of the District are presented below:

Special Fund The special fund is the primary fund used for day to day operations and expenditures including payroll and benefits. The District records all amounts received from the State, local, or federal governments in this fund. The County Auditor also maintains an accounting of this fund.

District Fund The district fund accounts for and reports revenues from district sales and equipment rentals, grants and donations.

Basis of Accounting

These financial statements follow the accounting basis permitted by the Ohio Department of Agriculture. 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 the Ohio Department of Agriculture requires.

Budgetary Process

The Ohio Revised Code requires the Special Fund be budgeted annually.

Appropriations Budgetary expenditures may not exceed appropriations at the fund, function or object level of control, and appropriations may not exceed estimated resources. The Board of Supervisors must annually approve appropriation measures and subsequent amendments. Appropriations lapse at year-end.

Lucas Soil and Water Conservation District

Lucas County

Notes to the Financial Statements

For the Year Ended December 31, 2018

Estimated Resources Estimated resources include estimates of cash to be received (budgeted receipts) plus cash as of January 1. The County Budget Commission must approve estimated resources.

A summary of 2018 budgetary activity appears in Note 3.

Deposits and Investments

The Lucas County Treasurer is the custodian for the District's Special Fund's cash and investments. The County's cash and investment holds the District's Special Fund's cash and investments, which are reported at the County Treasurer's carrying amount. Deposits and investments disclosures for the County as a whole may be obtained from the Lucas County Auditor's Office, Anita Lopez, Auditor, One Government Center, Suite 600, Toledo, Ohio 43604-2255, phone 419-213-4399.

The District's accounting basis for the District fund 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.

For the District Fund, money market mutual funds (including STAR Ohio) are recorded at share values the mutual funds report.

Capital Assets

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

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.

Fund Balance

Fund balance is divided into five classifications based primarily on the extent to which the District must observe constraints imposed upon the use of its governmental-fund resources. The classifications are as follows:

Nonspendable The District classifies assets as *nonspendable* when legally or contractually required to maintain the amounts intact.

Restricted Fund balance is *restricted* when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or is imposed by law through constitutional provisions.

Committed Supervisors can *commit* amounts via formal action (resolution). The District must adhere to these commitments unless the Supervisors amend the resolution. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed to satisfy contractual requirements.

Lucas Soil and Water Conservation District

Lucas County

Notes to the Financial Statements

For the Year Ended December 31, 2018

Assigned Assigned fund balances are intended for specific purposes but do not meet the criteria to be classified as *restricted* or *committed*. Funds other than the special and district funds report all fund balances as *assigned* unless they are restricted or committed. In the special and district funds, *assigned* amounts represent intended uses established by District Supervisors or a District official delegated that authority by resolution, or by State Statute.

Unassigned Unassigned fund balance is the residual classification for the special and district funds and includes amounts not included in the other classifications. In other funds, the unassigned classification is used only to report a deficit balance.

The District applies restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned, and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

Note 3 – Special Fund Budgetary Activity

Budgetary activity for the year ending December 31, 2018 follows:

2018 Budgeted vs. Actual Receipts			
Fund	Budgeted Receipts	Actual Receipts	Variance
Special	\$354,100	\$298,635	(\$55,465)

2018 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund	Appropriation Authority	Budgetary Expenditures	Variance
Special	\$338,088	\$257,377	\$80,711

Note 4 – Deposits and Investments

The District maintains a deposit and investments pool for the District Fund. The Lucas County Treasurer maintains a deposit and investments pool for the Special Fund. The Ohio Revised Code prescribes allowable deposits and investments. The carrying amount of deposits and investments at December 31 was as follows:

	2018
Demand deposits	\$229,674
County Treasurer Deposits	241,692
Total deposits	471,366
STAR Ohio	65,769
Total deposits and investments	\$537,135

Lucas Soil and Water Conservation District

Lucas County

Notes to the Financial Statements

For the Year Ended December 31, 2018

Deposits

Deposits are insured by the Federal Deposit Insurance Corporation or collateralized through the Ohio Pooled Collateral System (OPCS), a collateral pool of eligible securities deposited with a qualified trustee and pledged to the Treasurer of State to secure the repayment of all public monies deposited in the financial institution.

Investments

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

Note 5 – Risk Management

Workers' Compensation coverage is provided by the State of Ohio and is administered through Lucas County. The District pays the State Workers' Compensation System a premium based on a dollar for dollar of salaries. This rate is calculated based on accident history and administrative costs.

Commercial Insurance

The District has obtained commercial insurance for the following risks:

- Comprehensive property and general liability;
- Vehicles; and
- Errors and omissions.

Self-Insurance

The District through the Lucas County self-insurance plan is insured for employee health insurance. The Self Insurance Fund pays covered claims to service providers, and recovers these costs from charges to other funds based on an actuarially determined cost per employee. A comparison of Self Insurance Fund cash and investments to the actuarially measured liability as of December 31 follows and are the County self-insurance dollar amounts:

	2018
Cash and investments	\$40,530,827
Actuarial liabilities	\$40,203,198

Note 6 – Defined Benefit Pension Plans

Ohio Public Employees Retirement System

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

The Ohio Revised Code also prescribes contribution rates. OPERS members contributed 10 percent of their gross salaries and the District contributed an amount equaling 14 percent of participants' gross salaries. The District has paid all contributions required through December 31, 2018.

Lucas Soil and Water Conservation District

Lucas County

Notes to the Financial Statements

For the Year Ended December 31, 2018

Note 7 – Postemployment Benefits

OPERS offers a cost-sharing, multiple-employer defined benefit postemployment plan, which includes multiple health care plans including medical coverage, prescription drug coverage, and deposits to Health Reimbursement Arrangement and Medicare Part B premium reimbursements, to qualifying benefit recipients. The portion of employer contributions allocated to health care for members in the traditional pension plan and combined plan was 0 percent during calendar year 2018. The portion of employer contributions allocated to health care for members in the member-directed plan was 4.0 percent during calendar year 2018.

Note 8 – Contingent Liabilities

Amounts grantor agencies pay to the District are subject to audit and adjustment by the grantor. 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.

Lucas Soil and Water Conservation District
Lucas County, Ohio
Combined Statement of Receipts, Disbursements
and Changes in Fund Balances (Regulatory Cash Basis)
For the Year Ended December 31, 2017

	District Fund	Special Fund	Totals (Memorandum Only)
Cash Receipts			
Grants			
Local Government		\$140,334	\$140,334
State Government	\$203,942	141,837	345,779
Gifts and Contributions	2,350	2,410	4,760
Sale of Products/Materials	45,550		45,550
Rentals	1,050		1,050
Farm Harvest Income	110,461		110,461
Conservation Camp Income	13,125		13,125
Other Revenue	3,591	620	4,211
<i>Total Cash Receipts</i>	<u>380,069</u>	<u>285,201</u>	<u>665,270</u>
Cash Disbursements			
Great Lakes Restoration Initiative - Nutrient Reduction Program	166,724		166,724
Rain Garden Initiative	4,689		4,689
Salaries		183,061	183,061
Supplies	3,112		3,112
Equipment	3,870		3,870
Contract Repairs	1,114		1,114
Contract Services/Cost Share Payment	12,672		12,672
Rentals	228	15,226	15,454
Service Fees	2,604		2,604
Information and Education	8,904		8,904
Travel and Expenses	4,817		4,817
Advertising and Printing	4,142		4,142
OPERS		25,126	25,126
Worker's Compensation		1,528	1,528
Hospitalization		24,118	24,118
Medicare		2,597	2,597
Product/Materials for Resale	32,944		32,944
Farm Expense	46,602		46,602
Conservation Camp Expenses	13,955		13,955
Vehicle Repairs / Fuel / Maintenance	4,881		4,881
Liability Insurance	4,347		4,347
Annual Meeting/Banquet	2,214		2,214
Other	7,395		7,395
<i>Total Cash Disbursements</i>	<u>325,214</u>	<u>251,656</u>	<u>576,870</u>
<i>Net Change in Fund Cash Balances</i>	54,855	33,545	88,400
<i>Fund Cash Balances, January 1</i>	<u>194,159</u>	<u>166,889</u>	<u>361,048</u>
Fund Cash Balances, December 31			
Restricted	28,977		28,977
Unassigned	220,037	200,434	420,471
<i>Fund Cash Balances, December 31</i>	<u>\$249,014</u>	<u>\$200,434</u>	<u>\$449,448</u>

See accompanying notes to the basic financial statements

Lucas Soil and Water Conservation District

Lucas County

Notes to the Financial Statements

For the Year Ended December 31, 2017

Note 1 – Reporting Entity

The constitution and laws of the State of Ohio establish the rights and privileges of Lucas Soil and Water Conservation District, Lucas County, (the District) as a body corporate and politic. A publicly elected five-member District Board of Supervisors directs the District. The District provides local leadership in the conservation of natural resources and stewardship of agricultural lands.

The District’s management believes these financial statements present all activities for which the District is financially accountable.

Note 2 – Summary of Significant Accounting Policies

Basis of Presentation

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District Fund The district fund accounts for and reports revenues from district sales and equipment rentals, grants and donations.

Basis of Accounting

These financial statements follow the accounting basis permitted by the Ohio Department of Agriculture. 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 the Ohio Department of Agriculture requires.

Budgetary Process

The Ohio Revised Code requires the Special Fund be budgeted annually.

Appropriations Budgetary expenditures may not exceed appropriations at the fund, function or object level of control, and appropriations may not exceed estimated resources. The Board of Supervisors must annually approve appropriation measures and subsequent amendments. Appropriations lapse at year-end.

Lucas Soil and Water Conservation District

Lucas County

Notes to the Financial Statements

For the Year Ended December 31, 2017

Estimated Resources Estimated resources include estimates of cash to be received (budgeted receipts) plus cash as of January 1. The County Budget Commission must approve estimated resources.

A summary of 2017 budgetary activity appears in Note 3.

Deposits and Investments

The Lucas County Treasurer is the custodian for the District's Special Fund's cash and investments. The County's cash and investment holds the District's Special Fund's cash and investments, which are reported at the County Treasurer's carrying amount. Deposits and investments disclosures for the County as a whole may be obtained from the Lucas County Auditor's Office, Anita Lopez, Auditor, One Government Center, Suite 600, Toledo, Ohio 43604-2255, phone 419-213-4399.

The District's accounting basis for the District fund 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.

For the District Fund, money market mutual funds (including STAR Ohio) are recorded at share values the mutual funds report.

Capital Assets

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

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Fund Balance

Fund balance is divided into five classifications based primarily on the extent to which the District must observe constraints imposed upon the use of its governmental-fund resources. The classifications are as follows:

Nonspendable The District classifies assets as *nonspendable* when legally or contractually required to maintain the amounts intact.

Restricted Fund balance is *restricted* when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or is imposed by law through constitutional provisions.

Committed Supervisors can *commit* amounts via formal action (resolution). The District must adhere to these commitments unless the Supervisors amend the resolution. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed to satisfy contractual requirements.

Lucas Soil and Water Conservation District

Lucas County

Notes to the Financial Statements

For the Year Ended December 31, 2017

Assigned Assigned fund balances are intended for specific purposes but do not meet the criteria to be classified as *restricted* or *committed*. Funds other than the special and district funds report all fund balances as *assigned* unless they are restricted or committed. In the special and district funds, *assigned* amounts represent intended uses established by District Supervisors or a District official delegated that authority by resolution, or by State Statute.

Unassigned Unassigned fund balance is the residual classification for the special and district funds and includes amounts not included in the other classifications. In other funds, the unassigned classification is used only to report a deficit balance.

The District applies restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned, and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

Note 3 – Special Fund Budgetary Activity

Budgetary activity for the year ending December 31, 2017 follows:

2017 Budgeted vs. Actual Receipts			
Fund	Budgeted Receipts	Actual Receipts	Variance
Special	\$457,782	\$285,201	(\$172,581)

2017 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund	Appropriation Authority	Budgetary Expenditures	Variance
Special	\$388,114	\$251,656	\$136,458

Note 4 – Deposits and Investments

The District maintains a deposit and investments pool for the District Fund. The Lucas County Treasurer maintains a deposit and investments pool for the Special Fund. The Ohio Revised Code prescribes allowable deposits and investments. The carrying amount of deposits and investments at December 31 was as follows:

	2017
Demand deposits	\$209,310
County Treasurer Deposits	200,434
Total deposits	409,744
STAR Ohio	39,704
Total deposits and investments	\$449,448

Lucas Soil and Water Conservation District

Lucas County

Notes to the Financial Statements

For the Year Ended December 31, 2017

Deposits

Deposits are insured by the Federal Deposit Insurance Corporation or collateralized through the Ohio Pooled Collateral System (OPCS), a collateral pool of eligible securities deposited with a qualified trustee and pledged to the Treasurer of State to secure the repayment of all public monies deposited in the financial institution.

Investments

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

Note 5 – Risk Management

Workers' Compensation coverage is provided by the State of Ohio and is administered through Lucas County. The District pays the State Workers' Compensation System a premium based on a dollar for dollar of salaries. This rate is calculated based on accident history and administrative costs.

Commercial Insurance

The District has obtained commercial insurance for the following risks:

- Comprehensive property and general liability;
- Vehicles; and
- Errors and omissions.

Self-Insurance

The District through the Lucas County self-insurance plan is insured for employee health insurance. The Self Insurance Fund pays covered claims to service providers, and recovers these costs from charges to other funds based on an actuarially determined cost per employee. A comparison of Self Insurance Fund cash and investments to the actuarially measured liability as of December 31 follows and are the County self-insurance dollar amounts:

	<u>2017</u>
Cash and investments	\$14,282,761
Actuarial liabilities	\$3,420,820

Note 6 – Defined Benefit Pension Plans

Ohio Public Employees Retirement System

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

The Ohio Revised Code also prescribes contribution rates. OPERS members contributed 10 percent of their gross salaries and the District contributed an amount equaling 14 percent of participants' gross salaries. The District has paid all contributions required through December 31, 2017.

Lucas Soil and Water Conservation District

Lucas County

Notes to the Financial Statements

For the Year Ended December 31, 2017

Note 7 – Postemployment Benefits

OPERS offers a cost-sharing, multiple-employer defined benefit postemployment plan, which includes multiple health care plans including medical coverage, prescription drug coverage, and deposits to Health Reimbursement Arrangement and Medicare Part B premium reimbursements, to qualifying benefit recipients. The portion of employer contributions allocated to health care for OPERS members in the traditional pension plan and combined plan was 1 percent during calendar year 2017.

Note 8 – Contingent Liabilities

Amounts grantor agencies pay to the District are subject to audit and adjustment by the grantor. 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.



One Government Center, Suite 1420
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NorthwestRegion@ohioauditor.gov

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

Lucas Soil and Water Conservation District
Lucas County
130-A West Dudley Street
Maumee, Ohio 43537

To the Board of Supervisors:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the cash balances, receipts and disbursements for each fund of the Lucas Soil and Water Conservation District, Lucas County, Ohio (the District) as of and for the years ended December 31, 2018 and 2017, and the related notes to the financial statements, and have issued our report thereon dated October 4, 2019 wherein we noted the District followed financial reporting provisions the Ohio Department of Agriculture prescribes or permits.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all internal control deficiencies that might be material weaknesses or significant deficiencies. Therefore, unidentified material weaknesses or significant deficiencies may exist. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings that we consider material weaknesses. We consider findings 2018-001 and 2018-002 to be material weaknesses.

Compliance and Other Matters

As part of reasonably assuring whether the District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, opining on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

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 report is not suitable for any other purpose.



Keith Faber
Auditor of State

Columbus, Ohio

October 4, 2019

**LUCAS SOIL AND WATER CONSERVATION DISTRICT
LUCAS COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2018 AND 2017**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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FINDING NUMBER 2018-001

Material Weakness – Financial Reporting

In our audit engagement letter, as required by AU-C Section 210, Terms of Engagement, paragraph .06, management acknowledged its responsibility for the preparation and fair presentation of their financial statements; 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 as discussed in AU-C Section 210 paragraphs .A14 & .A16.

Accurate financial reporting is the responsibility of management and is essential to ensure the information provided to the readers of the financial statements accurately reflects the District's activity. The District should have procedures in place to prevent or detect material misstatements for the accurate presentation of the District's financial statements.

The following errors required adjustment to the financial statements and/or notes to the financial statements for the year ended December 31, 2018:

- Special Fund assigned fund balance in the amount of \$14,587 for subsequent year appropriations in excess of estimated receipts has been reclassified from unassigned and District Fund unassigned fund balance in the amount of \$9,975 has been reclassified from restricted fund balance in accordance with the provisions of Governmental Accounting Standards Board (GASB) Statement No. 54 (GASB Cod 1800.165-.179);
- District Fund receipts and disbursements were increased by \$14,383 and \$20,662 respectively to remove cost of goods sold from the financial statements and record other revenues and disbursements not on the books, but deposited or withdrawn from the bank account;
- The Ditch Fund was incorrectly reported separately on Hinkle system, as it is actually part of the District Fund, resulting in the moving of the beginning balance of \$10,494 and disbursements of \$8,894 to the District Fund.

The following errors required adjustment to the financial statements and/or notes to the financial statements for the year ended December 31, 2017:

- District Fund restricted fund balance in the amount of \$18,483 for grants balances has been reclassified from unassigned in accordance with the provisions of GASB No. 54 (GASB Cod 1800.165-.179);
- District Fund receipts and disbursements were increased by \$38,828 and \$38,658 respectively to remove cost of goods sold from the financial statements and record other revenues and disbursements not on the books, but deposited or withdrawn from the bank account;
- The Ditch Fund was incorrectly reported separately on Hinkle system, as it is actually part of the District Fund, resulting in the moving of the beginning balance of \$10,517 and disbursements of \$23 to the District Fund.

These errors were not identified and corrected prior to the District preparing its financial statements due to deficiencies in the District's internal controls over financial statement monitoring. The accompanying financial statements, notes to the financial statements, and, where applicable, the District's accounting records have been adjusted to reflect these changes. Failing to prepare accurate financial statements could lead to the Board or financial statement user to make misinformed decisions. Additional errors were noted in smaller relative amounts.

To help ensure the District's financial statements and notes to the financial statements are complete and accurate and to help identify and correct errors and omissions, the District should adopt policies and procedures, including a final review of the statements and notes to the financial statements by the District Manager and Board of Supervisors. The District Manager can refer to Auditor of State Bulletin 2011-004 for information on GASB Statement No. 54.

FINDING NUMBER 2018-002

Material Weakness – Bank Account Reconciliation

Sound accounting practices require that when designing the public office's system of internal control and the specific control activities, management should ensure adequate security of assets and records, and verify the existence and valuation of assets and liabilities and periodically reconcile them to the accounting records.

The reconciliation of cash (bank) balances to accounting system records (book) to the accounting system is the most basic and primary control process performed. Lack of completing an accurate and timely reconciliation may allow for accounting errors, theft and fraud to occur without timely detection.

The District Manager is responsible for reconciling the book (fund) balance to the total bank balance on a monthly basis, and the Council and/or other administrator are responsible for reviewing the reconciliations and related support.

Due to inadequate policies and procedures, the District Manager performed bank to book reconciliations for 2018 and 2017 for the main checking account, but did not include all the bank accounts and had reconciling items that should not have been included in outstanding items, nor did the District have a running balance of all funds to reconcile the bank and books. Therefore, the reconciled bank statement balances at year end did not agree to the District's accounting system. The variances due to the non-inclusion of accounts and errors in reconciling at December 31, 2018 and 2017 were \$93,757 and \$91,142 respectively. The bank balance was higher than the balance reported in the District's accounting system.

Failure to reconcile monthly increases the possibility that the District will not be able to identify, assemble, analyze, classify, and record its transactions correctly or to document compliance with finance related legal and contractual requirements. Further, the lack of accurate monthly reconciliations increases the risk of theft/fraud over the cash cycle and could lead to inaccurate reporting in the annual financial statements. These errors have been corrected in the District's accounting system and financial statements.

The District Manager should record all transactions and prepare monthly bank to book cash reconciliations, which include all bank accounts and all fund balances. Variances should be investigated, documented and corrected. In addition, the Board should review the monthly cash reconciliations including the related support (such as reconciling items) and document the reviews.

Officials' Response:

We did not receive a response from Officials to these findings.

OHIO AUDITOR OF STATE KEITH FABER



LUCAS SOIL AND WATER CONSERVATION DISTRICT

LUCAS 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
OCTOBER 17, 2019**