



Dave Yost • Auditor of State



**NORTH HILLS WATER DISTRICT  
SUMMIT COUNTY**

**TABLE OF CONTENTS**

<b>TITLE</b>	<b>PAGE</b>
Independent Auditor's Report .....	1
Combined Statement of Receipts, Disbursements, and Changes in Fund Balances (Cash Basis) - All Governmental Fund Types – For the Year Ended 2014.....	3
Combined Statement of Receipts, Disbursements, and Changes in Fund Balances (Cash Basis) - All Governmental Fund Types - For the Year Ended 2013.....	4
Notes to the Financial Statements .....	5
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by <i>Government Auditing Standards</i> .....	11
Schedule of Findings .....	13

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# Dave Yost • Auditor of State

## INDEPENDENT AUDITOR'S REPORT

North Hills Water District  
Summit County  
253 West Aurora Road  
Northfield, Ohio 44067

To the Board of Trustees:

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

We have audited the accompanying financial statements of the cash balances, receipts and disbursements by fund type, and related notes of the North Hills Water District, Summit County, Ohio (the District) as of and for the years ended December 31, 2014 and 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 opinions.

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

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

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

Though the District does not intend these statements to conform to GAAP, auditing standards generally accepted in the United States of America require us to include an adverse opinion on GAAP. However, the adverse opinion does not imply the amounts reported are materially misstated under the accounting basis Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D) permit. Our opinion on this accounting basis is in the *Opinion on Regulatory Basis of Accounting* paragraph below.

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

In our opinion, because of the significance of the matter discussed in the *Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles* paragraph, the financial statements referred to above do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the District as of December 31, 2014 and 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 balances of North Hills Water District, Summit County, Ohio, as of December 31, 2014 and 2013, and its combined cash receipts and disbursements for the years then ended in accordance with the financial reporting provisions Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D) permit, described in Note 1B.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated December 11, 2015, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.



**Dave Yost**  
Auditor of State  
Columbus, Ohio  
December 11, 2015

**NORTH HILLS WATER DISTRICT  
SUMMIT COUNTY, OHIO**

**COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS  
AND CHANGES IN FUND BALANCES (CASH BASIS)  
ALL GOVERNMENTAL FUND TYPES  
FOR THE YEAR ENDED DECEMBER 31, 2014**

	General	Debt Service	Totals (Memorandum Only)
<b>Cash Receipts</b>			
Taxes	\$184,855	\$0	\$184,855
Intergovernmental	30,103	0	30,103
Charges for Services	1,285	0	1,285
Miscellaneous	25	0	25
<i>Total Cash Receipts</i>	<u>216,268</u>	<u>0</u>	<u>216,268</u>
<b>Cash Disbursements</b>			
Current:			
Salaries and Benefits	42,551	0	42,551
Professional Services	12,000	0	12,000
Repairs and Supplies	87,441	0	87,441
Bonds and Insurance	5,951	0	5,951
Utilities	907	0	907
OPWC Payments	20,379	0	20,379
<i>Total Cash Disbursements</i>	<u>169,229</u>	<u>0</u>	<u>169,229</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	<u>47,039</u>	<u>0</u>	<u>47,039</u>
<i>Net Change in Fund Cash Balances</i>	47,039	0	47,039
<i>Fund Cash Balances, January 1</i>	<u>377,156</u>	<u>12,877</u>	<u>390,033</u>
<b>Fund Cash Balances, December 31</b>			
Restricted for Debt Service	0	12,877	12,877
Assigned for Subsequent Year Appropriations	23,396	0	23,396
Unassigned (Deficit)	400,799	0	400,799
<i>Fund Cash Balances, December 31</i>	<u><u>\$424,195</u></u>	<u><u>\$12,877</u></u>	<u><u>\$437,072</u></u>

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

**NORTH HILLS WATER DISTRICT  
SUMMIT COUNTY, OHIO**

**COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS  
AND CHANGES IN FUND BALANCES (CASH BASIS)  
ALL GOVERNMENTAL FUND TYPES  
FOR THE YEAR ENDED DECEMBER 31, 2013**

	General	Debt Service	Totals (Memorandum Only)
<b>Cash Receipts</b>			
Taxes	\$186,588	\$0	\$186,588
Intergovernmental	29,986	0	29,986
Charges for Services	380	0	380
Miscellaneous	2,090	0	2,090
<i>Total Cash Receipts</i>	<u>219,044</u>	<u>0</u>	<u>219,044</u>
<b>Cash Disbursements</b>			
Current:			
Salaries and Benefits	44,364	0	44,364
Professional Services	13,000	0	13,000
Repairs and Supplies	78,908	0	78,908
Bonds and Insurance	5,275	0	5,275
Utilities	1,070	0	1,070
OPWC Payments	20,379	0	20,379
Other Expenses	4,400	0	4,400
<i>Total Cash Disbursements</i>	<u>167,396</u>	<u>0</u>	<u>167,396</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	<u>51,648</u>	<u>0</u>	<u>51,648</u>
<i>Net Change in Fund Cash Balances</i>	51,648	0	51,648
<i>Fund Cash Balances, January 1</i>	<u>325,508</u>	<u>12,877</u>	<u>338,385</u>
<b>Fund Cash Balances, December 31</b>			
Restricted for Debt Service	0	12,877	12,877
Assigned for Subsequent Year Appropriations	10,194	0	10,194
Unassigned (Deficit)	<u>366,962</u>	<u>0</u>	<u>366,962</u>
<i>Fund Cash Balances, December 31</i>	<u><u>\$377,156</u></u>	<u><u>\$12,877</u></u>	<u><u>\$390,033</u></u>

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

**NORTH HILLS WATER DISTRICT  
SUMMIT COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2014 AND 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 of the North Hills Water District, Summit County, (the District) as a body corporate and politic. The District is directed by a seven member Board of Trustees appointed by Northfield Center and Sagamore Hills Townships. The District provides construction of water-lines and major repairs and servicing of hydrants within the Townships.

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 permitted by the financial reporting provisions of Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D). This basis is similar to the cash receipts and disbursements accounting basis. The Board recognizes receipts when received in cash rather than when earned, and recognizes disbursements when paid rather than when a liability is incurred. Budgetary presentations report budgetary expenditures when a commitment is made (i.e., when an encumbrance is approved).

These statements include adequate disclosure of material matters, as the financial reporting provisions of Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D) permit.

**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 District had no investments in 2014 or 2013.

**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. General Fund**

The General Fund accounts for and reports all financial resources not accounted for and reported in another fund.

**2. Debt Service Fund**

This fund accounts for and reports financial resources that are restricted, committed, or assigned to expenditure for principal and interest.

**NORTH HILLS WATER DISTRICT  
SUMMIT COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2014 AND 2013  
(Continued)**

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

**E. Budgetary Process**

The Ohio Revised Code requires the Board to budget annually.

**1. Appropriations**

Budgetary expenditures (that is, disbursements and encumbrances) may not exceed appropriations at the fund, function or object level of control and appropriations may not exceed estimated resources. The District's Board of Trustees must annually approve appropriation measures and subsequent amendments. Appropriations lapse at year end.

**2. Estimated Resources**

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

**3. Encumbrances**

The Ohio Revised Code requires the District to reserve (encumber) appropriations when individual commitments are made. Encumbrances outstanding at year end are canceled, and re-appropriated in the subsequent year. The District did not encumber all commitments as required by Ohio law.

A summary of 2014 and 2013 budgetary activity appears in Note 3.

**F. 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:

**1. Nonspendable**

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

**2. 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.

**NORTH HILLS WATER DISTRICT  
SUMMIT COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2014 AND 2013  
(Continued)**

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

**3. Committed**

The Board of Trustees can *commit* amounts via formal action (resolution). The District must adhere to these commitments unless the Board of Trustees amends 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.

**4. Assigned**

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

**5. Unassigned**

Unassigned fund balance is the residual classification for the general fund and includes amounts not included in the other classifications. In other governmental 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.

**G. Property, Plant, and Equipment**

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

**2. EQUITY IN POOLED DEPOSITS AND INVESTMENTS**

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

	2014	2013
Demand deposits	\$390,033	\$437,072
Total deposits	390,033	437,072

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

**NORTH HILLS WATER DISTRICT  
SUMMIT COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2014 AND 2013  
(Continued)**

**3. BUDGETARY ACTIVITY**

Budgetary activity for the years ending December 31, 2014 and 2013 are as follows:

2014 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$218,206	\$216,268	(\$1,938)

2014 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$228,400	\$169,229	\$59,171

2013 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$217,016	\$219,044	\$2,028

2013 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$228,400	\$167,396	\$61,004

**4. PROPERTY TAX**

Real property taxes become a lien on January 1 preceding the October 1 date for which the Board of Trustees adopted tax rates. The State Board of Tax Equalization adjusts these rates for inflation. Property taxes are also reduced for applicable homestead and rollback deductions. The financial statements include homestead and rollback amounts the State pays as Intergovernmental Receipts. Payments are due to the County by December 31. If the property owner elects to pay semiannually, the first half is due December 31. The second half payment is due the following June 20.

The County is responsible for assessing property, and for billing, collecting, and distributing all property taxes on behalf of the District.

**NORTH HILLS WATER DISTRICT  
SUMMIT COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2014 AND 2013  
(Continued)**

**5. DEBT**

Debt outstanding at December 31, 2014 was as follows:

	Principal	Interest Rate
Ohio Public Works Commission Loan	\$244,553	0%

The Ohio Public Works Commission (OPWC) loan relates to a water line replacement and improvements. The OPWC has provided the loan at no interest to the District over a period of 20 years.

Amortization of the above debt is scheduled as follows:

Year ending December 31:	OPWC Loan
2015	\$20,379
2016	20,380
2017	20,379
2018	20,380
2019	20,379
2020-2024	101,897
2025-2026	40,759
Total	\$244,553

**6. RETIREMENT SYSTEMS**

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

The Ohio Revised Code also prescribes contribution rates. For 2014 and 2013, OPERS members contributed 10%, and 10%, respectively, of their gross salaries and the District contributed an amount equaling 14%, and 14%, respectively, of participants' gross salaries. The District has paid all contributions required through December 31, 2014.

**7. RISK MANAGEMENT**

**Commercial Insurance**

The District has obtained commercial insurance for the following risks:

- Comprehensive property and general liability;
- Public Officials liability
- Employer liability

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# 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

North Hills Water District  
Summit County  
253 West Aurora Road  
Northfield, Ohio 44067

To the Board of Trustees:

We have audited in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the North Hills Water District, Summit, (the District) as of and for the years ended December 31, 2014 and 2013, and the related notes to the financial statements and have issued our report thereon dated December 11, 2015 wherein we noted the District followed financial reporting provisions Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D) permit.

### ***Internal Control Over Financial Reporting***

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all internal control deficiencies that might be material weaknesses or significant deficiencies. Therefore, unidentified material weaknesses or significant deficiencies may exist. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings that we consider a material weakness. We consider finding 2014-001 to be a material weakness.

***Compliance and Other Matters***

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

***District's Response to Findings***

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

***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

December 11, 2015

**NORTH HILLS WATER DISTRICT  
SUMMIT COUNTY**

**SCHEDULE OF FINDINGS  
DECEMBER 31, 2014 AND 2013**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b>
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**FINDING NUMBER 2014-001**

**Material Weakness – Bank Reconciliation**

During fiscal year 2014 and 2013, the month-end bank to book reconciliations performed by the Fiscal Officer and presented to the Trustees on a monthly basis were not accurate. The Fiscal Officer relied on system reconciliation summaries that did not actually reconcile bank balances to system amounts due to the system carrying forward adjustments from prior years that were not valid reconciling items. This issue was compounded by the fact the District utilizes a computerized accounting system (Quickbooks) that is not set up to function as a governmental fund balance accounting software.

Bank reconciliations are performed as a means of accounting for the differences between the balances on the bank statements and the cash balances according to the District's records at a specific point in time. The performance of accurate bank reconciliations is a necessary step in the internal control process over financial reporting.

The District's bank balance did not reconcile to the fund balance in the District's accounting software for the following reasons:

- Several prior year adjustments were included on the current year reconciliation as reconciling items including two checks to Ohio Public Employees Retirement System reported as outstanding checks that totaled \$1,365 which actually represented double postings of the expenditures and \$3,002 listed as deposits in transit from 2008 and 2009 were actually adjustments to increase under posted receipts for tax collections.
- The initial computerized accounting system Reconciliation Summary presented by the District only reconciled the First Merit checking account; however, the accounting system also had balances for the following accounts which were closed prior to fiscal year 2013: First Merit certificate of deposit- \$35, Key Bank certificate of deposit - \$15,834, and Park View Bank certificate of deposit - \$1,405.

After the Auditors brought the above issues to the District's attention, the District contracted with an accounting firm to perform monthly bank reconciliation from 2008, the last year the District had a full financial audit, through 2014.

The District should consider the use of a computerized accounting software system specifically set up for the accounting of a governmental entity such as Uniform Accounting Network (UAN), Creative Microsystem Innovation (CMI) or Software Solutions Incorporated (SSI) software. Additionally, the District should:

- Post the proper adjustments to the computerized accounting system to correct prior year mispostings and remove reconciling items related to those adjustments.
- Perform entity-wide bank reconciliations separate from the system to ensure proper reconciliation of computerized accounting system balances to bank account balances.

**Officials' Response** - The District is presently considering a computerized accounting system. The Fiscal Officer will correct mispostings, remove reconciliations items related to adjustments and perform external entity-wide bank reconciliations.

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# Dave Yost • Auditor of State

**NORTH HILLS WATER DISTRICT**

**SUMMIT COUNTY**

**CLERK'S CERTIFICATION**

**This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.**

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
DECEMBER 29, 2015**