



Dave Yost • Auditor of State

**NORTH HILLS WATER DISTRICT
SUMMIT COUNTY
DECEMBER 31, 2016 AND 2015**

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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 North Hills Water District, Summit County, (the District) as of and for the years ended December 31, 2016 and 2015.

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 2 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, 2016 and 2015, 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 as of December 31, 2016 and 2015, 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 2.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 27, 2017 on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.



Dave Yost
Auditor of State
Columbus, Ohio

September 27, 2017

North Hills Water District

*Summit County, Ohio
Combined Statement of Receipts, Disbursements
and Changes in Fund Balances (Regulatory Cash Basis)
For the Year Ended December 31, 2016*

| | General | Debt Service | Totals (Memorandum Only) |
|---|------------|-----------------|--------------------------------|
| Cash Receipts | | | |
| Taxes | \$ 184,183 | \$ - | \$ 184,183 |
| Intergovernmental | 29,470 | - | 29,470 |
| Permits | 200 | - | 200 |
| Interest | 2,521 | - | 2,521 |
| | 216,374 | - | 216,374 |
| <i>Total Cash Receipts</i> | | | |
| Cash Disbursements | | | |
| Salaries and Benefits | 56,912 | - | 56,912 |
| Repairs and Supplies | 48,232 | - | 48,232 |
| Purchased Services | 165,503 | - | 165,503 |
| Bonds and Insurance | 6,366 | - | 6,366 |
| Utilities | 924 | - | 924 |
| OPWC Payments | 20,379 | - | 20,379 |
| Other Expenses | 6,141 | - | 6,141 |
| | 304,457 | - | 304,457 |
| <i>Total Cash Disbursements</i> | | | |
| <i>Net Change in Fund Cash Balances</i> | (88,083) | - | (88,083) |
| <i>Fund Cash Balances, January 1</i> | 476,430 | 12,877 | 489,307 |
| | 476,430 | 12,877 | 489,307 |
| Fund Cash Balances, December 31 | | | |
| Restricted for Debt Service | - | 12,877 | 12,877 |
| Unassigned (Deficit) | 388,347 | - | 388,347 |
| | 388,347 | - | 388,347 |
| <i>Fund Cash Balances, December 31</i> | \$388,347 | \$12,877 | \$401,224 |
| | \$388,347 | \$12,877 | \$401,224 |

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North Hills Water District
Summit County
Notes to the Financial Statements
For the Year Ended December 31, 2016

NOTE 1 - REPORTING ENTITY

The North Hills Water District (the District), Summit County, is a body politic and corporate established to exercise the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. 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.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

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

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:

General Fund The general fund accounts for and reports all financial resources not accounted for and reported in another fund. The general fund balance is available to the District for any purpose provided it is expended or transferred according to the general laws of Ohio.

Debt Service Funds These funds account for and report financial resources that are restricted, committed, or assigned to expenditure for principal and interest.

Basis of Accounting

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 of Trustees 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.

North Hills Water District
Summit County
Notes to the Financial Statements
For the Year Ended December 31, 2016

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (CONTINUED)

Budgetary Process

The Ohio Revised Code requires that each fund be budgeted annually.

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.

Estimated Resources

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

Encumbrances

The Ohio Revised Code requires the District to reserve (encumber) appropriations when individual commitments are made.

A summary of 2016 budgetary activity appears in Note 3.

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 2016.

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

North Hills Water District
Summit County
Notes to the Financial Statements
For the Year Ended December 31, 2016

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (CONTINUED)

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 Commissioners or a District official delegated that authority by resolution, or by State Statute.

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.

Note 3 - Budgetary Activity

Budgetary activity for the years ending December 31, 2016 follows:

| 2016 Budgeted vs. Actual Receipts | | | |
|-----------------------------------|----------------------|--------------------|------------|
| Fund Type | Budgeted Receipts | Actual Receipts | Variance |
| General | \$238,400 | \$216,374 | (\$22,026) |

| 2016 Budgeted vs. Actual Budgetary Basis Expenditures | | | |
|---|----------------------------|---------------------------|-----------|
| Fund Type | Appropriation Authority | Budgetary Expenditures | Variance |
| General | \$417,400 | \$304,457 | \$112,943 |

NOTE 4 – DEPOSITS

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

| | |
|-------------------------|-----------|
| | 2016 |
| Demand deposits | \$198,703 |
| Certificates of deposit | 202,521 |
| Total deposits | 401,224 |

Deposits

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

North Hills Water District
Summit County
Notes to the Financial Statements
For the Year Ended December 31, 2016

NOTE 5 – TAXES

Real property taxes become a lien on January 1 preceding the October 1 date for which the Board 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.

NOTE 6 - RISK MANAGEMENT

Commercial Insurance

The District has obtained commercial insurance for the following risks:

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

NOTE 7 - DEFINED BENEFIT PENSION PLANS

Ohio Public Employees Retirement System

District 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%, 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, 2016.

NOTE 8 - POSTEMPLOYMENT BENEFITS

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

North Hills Water District
Summit County
Notes to the Financial Statements
For the Year Ended December 31, 2016

NOTE 9 – DEBT

Debt outstanding at December 31, 2016 was as follows:

| | Principal | Interest Rate |
|-----------------------------------|-----------|---------------|
| Ohio Public Works Commission Loan | \$203,794 | 0.00% |
| Total | \$203,794 | |

The Ohio Public Works Commission (OPWC) loan related to 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 | OPWC Loan |
|--------------------|-----------|
| December 31, 2016: | |
| 2017 | \$20,379 |
| 2018 | 20,380 |
| 2019 | 20,379 |
| 2020 | 20,380 |
| 2021 | 20,379 |
| 2022-2026 | 101,897 |
| Total | \$203,794 |

Note 10 – Related Party Transactions

The Engineer employed by the District is part owner of Chagrin Valley Engineering LLC a company from which the District acquired engineering services during the years of the audit. The District paid \$39,107 in 2016 for this acquisition. The District also uses the office space of the Fiscal Officer. No rent is charged to the District.

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North Hills Water District

Summit County, Ohio

**Combined Statement of Receipts, Disbursements
and Changes in Fund Balances (Regulatory Cash Basis)**

For the Year Ended December 31, 2015

| | General | Debt Service | Totals (Memorandum Only) |
|---|------------------|-----------------|--------------------------------|
| Cash Receipts | | | |
| Taxes | \$ 187,318 | \$ - | \$ 187,318 |
| Intergovernmental | 29,712 | - | 29,712 |
| Permits | 645 | - | 645 |
| Miscellaneous | 2,305 | - | 2,305 |
| | 219,980 | - | 219,980 |
| <i>Total Cash Receipts</i> | | | |
| Cash Disbursements | | | |
| Salaries and Benefits | 54,620 | - | 54,620 |
| Repairs and Supplies | 31,400 | - | 31,400 |
| Purchased Services | 41,190 | - | 41,190 |
| Bonds and Insurance | 6,367 | - | 6,367 |
| Utilities | 916 | - | 916 |
| OPWC Payments | 20,379 | - | 20,379 |
| Other Expenses | 12,873 | - | 12,873 |
| | 167,745 | - | 167,745 |
| <i>Total Cash Disbursements</i> | | | |
| <i>Net Change in Fund Cash Balances</i> | 52,235 | - | 52,235 |
| <i>Fund Cash Balances, January 1</i> | 424,195 | 12,877 | 437,072 |
| Fund Cash Balances, December 31 | | | |
| Restricted for Debt Service | - | 12,877 | 12,877 |
| Assigned | 179,000 | - | 179,000 |
| Unassigned (Deficit) | 297,430 | - | 297,430 |
| | \$476,430 | \$12,877 | \$489,307 |
| <i>Fund Cash Balances, December 31</i> | | | |

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North Hills Water District
Summit County
Notes to the Financial Statements
For the Year Ended December 31, 2015

NOTE 1 - REPORTING ENTITY

The North Hills Water District (the District), Summit County, is a body politic and corporate established to exercise the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. 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.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

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

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Basis of Accounting

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 of Trustees 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.

North Hills Water District
Summit County
Notes to the Financial Statements
For the Year Ended December 31, 2015

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (CONTINUED)

Budgetary Process

The Ohio Revised Code requires that each fund be budgeted annually.

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.

Estimated Resources

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

Encumbrances

The Ohio Revised Code requires the District to reserve (encumber) appropriations when individual commitments are made.

A summary of 2015 budgetary activity appears in Note 3.

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 2015.

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

North Hills Water District
Summit County
Notes to the Financial Statements
For the Year Ended December 31, 2015

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (CONTINUED)

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 Commissioners or a District official delegated that authority by resolution, or by State Statute.

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.

NOTE 3 - BUDGETARY ACTIVITY

Budgetary activity for the years ending December 31, 2015 follows:

| 2015 Budgeted vs. Actual Receipts | | | |
|-----------------------------------|----------------------|--------------------|-----------|
| Fund Type | Budgeted Receipts | Actual Receipts | Variance |
| General | \$228,400 | \$219,980 | (\$8,420) |

| 2015 Budgeted vs. Actual Budgetary Basis Expenditures | | | |
|---|----------------------------|---------------------------|----------|
| Fund Type | Appropriation Authority | Budgetary Expenditures | Variance |
| General | \$228,400 | \$167,745 | \$60,655 |

NOTE 4 – DEPOSITS

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

| | |
|-------------------------|-----------|
| | 2015 |
| Demand deposits | \$289,307 |
| Certificates of deposit | 200,000 |
| Total deposits | 489,307 |

Deposits

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

North Hills Water District
Summit County
Notes to the Financial Statements
For the Year Ended December 31, 2015

NOTE 5 – TAXES

Real property taxes become a lien on January 1 preceding the October 1 date for which the Board 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.

NOTE 6 - RISK MANAGEMENT

Commercial Insurance

The District has obtained commercial insurance for the following risks:

- Comprehensive property and general liability;
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- Employers liability

NOTE 7 - DEFINED BENEFIT PENSION PLANS

Ohio Public Employees Retirement System

District 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%, 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, 2015.

NOTE 8 - POSTEMPLOYMENT BENEFITS

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

North Hills Water District
Summit County
Notes to the Financial Statements
For the Year Ended December 31, 2015

NOTE 9 – DEBT

Debt outstanding at December 31, 2015 was as follows:

| | Principal | Interest Rate |
|-----------------------------------|-----------|---------------|
| Ohio Public Works Commission Loan | \$224,174 | 0.00% |
| Total | \$224,174 | |

The Ohio Public Works Commission (OPWC) loan related to 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 | OPWC Loan |
|--------------------|-----------|
| December 31, 2015: | |
| 2016 | \$20,379 |
| 2017 | 20,380 |
| 2018 | 20,379 |
| 2019 | 20,380 |
| 2020 | 20,379 |
| 2021-2025 | 101,897 |
| 2026 | 20,380 |
| Total | \$224,174 |

NOTE 10 – RELATED PARTY TRANSACTIONS

The Engineer employed by the District is part owner of Chagrin Valley Engineering LLC a company from which the District acquired engineering services during the years of the audit. The District paid \$704 in 2015 for this acquisition. The District also uses the office space of the Fiscal Officer. No rent is charged to the District.

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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 County, (the District) as of and for the year ended December 31, 2016 and 2015, and the related notes to the financial statement, and have issued our report thereon dated September 27, 2017 wherein we noted the District followed financial reporting provisions Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D) permit.

Internal Control Over Financial Reporting

As part of our financial statement audit, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures appropriate in the circumstances to the extent necessary to support our 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 2016-001 to be a material weakness.

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 finding 2016-001 to be material weaknesses.

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Phone: 330-438-0617 or 800-443-9272 Fax: 330-471-0001

www.ohioauditor.gov

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

September 27, 2017

**NORTH HILLS WATER DISTRICT
SUMMIT COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31 2016**

| |
|--|
| FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS |
|--|

| | |
|-----------------------|----------|
| <i>Finding Number</i> | 2016-001 |
|-----------------------|----------|

Material Weakness Cash Reconciliation

During fiscal years 2016 and 2015, the month-end bank to book reconciliations performed by the Fiscal Officer and presented to Board on a monthly basis were not accurate due to the lack of controls. Bank reconciliations are performed as a means of accounting for the differences between the balances on the bank statements and the cash and investment balances according to the District's computerized accounting 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 contracted with the Auditor of State's Office to perform the monthly bank reconciliation for December 31, 2015.

While performing the December 31, 2015 bank reconciliation, the following errors were noted and have been adjusted to the financial statements:

- The computerized accounting system beginning balance did not agree with the prior year's audited report.
- The computerized accounting system had an unrecorded receipt from a permit receipt of \$110 that was deposited within the bank.
- The withholdings payroll expenditures were also recorded in the activity for payments of the withholdings in the amount of \$12,813 resulting in an overstatement of expenditures to the computerized accounting system which did not affect the District's bank balance and was not recorded as a reconciling item. The \$12,813 adjustment includes the \$840 which was not recorded on the check register but was paid to the bank and cleared in January.
- An unsupported reduction in expenditure of \$35 resulting in an understatement of expenditures.

While testing the December 31, 2016 bank reconciliation, the following errors were noted and have been adjusted to the financial statements:

- The withholdings payroll expenditures were was also recorded in the activity for payments of the withholdings in the amount of \$8,254 resulting in an overstatement of expenditures to the computerized accounting system which did not affect the District's bank balance, but was not accounted for in the reconciliation.
- Two payments (check and EFT) were made to the Ohio Public Employees Retirement System (OPERS) for payroll pension withholding; however, although caught by OPERS and returned to the District, the Fiscal Officer did not void the check and reduce the expenditure within the computerized accounting system resulting in the overstatement of expenditures of \$840 nor was the activity recorded as a reconciling item.
- The voiding of outstanding checks of \$138 written from 2015 was not recorded within the computerized accounting system resulting in the overstatement of expenditures that did not affect the District's bank balance.

The bank reconciliation process provides an independent verification of the accuracy of the accounting records and must be completed before preparing the financial statements.

Performance of accurate bank reconciliations confirms the amount of money the District has available and are a necessary part of the internal controls of the District, particularly in terms of identifying recording errors and fraud. Bank reconciliations should be performed each month by the Fiscal Officer and those reconciliations should be reviewed for accuracy by the Board.

Official's Response: Monthly bank reconciliations were timely provided to the Board through the computerized accounting system with a copy of the monthly bank statements. The computerized accounting system tracks payroll withholding differently than governmental fund accounting systems resulting in an overstatement of withholding payroll expenditures/liabilities. Monthly reconciliations were inaccurate because expenses were inflated in the computerized accounting system. The overstated withholding payroll expenses/liabilities only affected the computerized records and did not affect the bank balance nor was it a reconciliation item. The Fiscal Officer and Auditors have discussed modifications to the system of monthly bank reconciliations and established a plan to avoid the overstatement of payroll withholding expenditures/liabilities in future monthly bank reconciliations. The other items have all been addressed and corrected.

**NORTH HILLS WATER DISTRICT
SUMMIT COUNTY**

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2016 AND 2015**

| Finding Number | Finding Summary | Status | Additional Information |
|-----------------------|--|------------------|-------------------------------|
| 2014-001 | Material Weakness – Bank Reconciliation | Not Corrected | See Finding number 2016-002 |

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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
OCTOBER 10, 2017**