



Rea & associates *a brighter way*

Ayersville Water and Sewer District Defiance County, Ohio

Audited Financial Statements

For the Year Ended
December 31, 2012



Dave Yost • Auditor of State

Board of Trustees
Ayersville Water and Sewer District
13961 Fruit Ridge Road
Defiance, OH 43512

We have reviewed the *Independent Auditor's Report* of the Ayersville Water and Sewer District, Defiance County, prepared by Rea & Associates, Inc., for the audit period January 1, 2012 through December 31, 2012. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Ayersville Water and Sewer District is responsible for compliance with these laws and regulations.

A handwritten signature in black ink that reads "Dave Yost".

Dave Yost
Auditor of State

January 9, 2015

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Ayersville Water and Sewer District

Defiance County, Ohio

Table of Contents

For the Year Ended December 31, 2012

	<i>Page</i>
Independent Auditor's Report.....	1
Management's Discussion and Analysis.....	3
Basic Financial Statements:	
Statement of Fund Net Position - Cash Basis - Proprietary Funds	7
Statement of Cash Receipts, Disbursements and Changes in Fund Net Position - Cash Basis - Proprietary Funds	8
Notes to the Basic Financial Statements	9
Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards	20
Schedule of Findings.....	22
Schedule of Prior Audit Findings.....	25

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December 9, 2014

To the Board of Trustees
Ayersville Water and Sewer District
Defiance County, Ohio
13961 Fruit Ridge Road
Defiance, OH 43512

Independent Auditor's Report

Report on the Financial Statements

We have audited the accompanying financial statements of each major fund of the Ayersville Water and Sewer District, Defiance County, Ohio (the District), as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for preparing and fairly presenting these financial statements in accordance with the cash accounting basis Note 2 describes. This responsibility includes determining that the cash accounting basis is acceptable for the circumstances. Management is also responsible for designing, implementing and maintaining internal control relevant to preparing and fairly presenting financial statements that are 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.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash financial position of each major fund of the Ayersville Water and Sewer District, Defiance County, Ohio, as of December 31, 2012, and the respective changes in cash financial position thereof for the year then ended in accordance with the accounting basis described in Note 2.

Accounting Basis

We draw attention to Note 2 of the financial statements, which describes the accounting basis, which differs from generally accepted accounting principles. We did not modify our opinion regarding this matter.

Other Matters

Supplemental and Other Information

We audited to opine on the District's financial statements that collectively comprise its basic financial statements.

Management's Discussion and Analysis includes tables of net position and changes in net position. This information provides additional analysis and is not a required part of the basic financial statements.

These tables are management's responsibility, and derive from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. We subjected these tables to the auditing procedures we applied to the basic financial statements. We also applied certain additional procedures, including comparing and reconciling these tables directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and in accordance with auditing standards generally accepted in the United States of America. In our opinion, these tables are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Other than the aforementioned procedures applied to the tables, we applied no procedures to any other information in *Management's Discussion and Analysis*, and we express no opinion or any other assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 9, 2014 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion 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 District's internal control over financial reporting and compliance.

Hea & Associates, Inc.

New Philadelphia, Ohio

Ayersville Water and Sewer District
Defiance County, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2012
Unaudited

This discussion and analysis of the Ayersville Water and Sewer District's (the District) financial performance provides an overall review of the District's financial activities for the year ended December 31, 2012, within the limitations of the District's cash basis accounting. Readers should also review the basic financial statements and notes to enhance their understanding of the District's financial performance.

Highlights

The District's net cash position increased by \$365,364 in 2012.

The District's operating cash receipts increased by \$116,582 in 2012. Operating cash disbursements increased by \$38,752 in 2012. Non-operating cash receipts decreased by \$1,112,078 and non-operating disbursements decreased by \$1,107,612 in 2012.

Overview of Basic Financial Statements

The District has several enterprise funds using proprietary fund accounting, similar to private sector business. The basic financial statements are presented using the cash basis of accounting which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

The statement of fund net position-cash basis and the statement of cash receipts, disbursements and changes in fund net position-cash basis provide information on the District's cash basis operations over the past year and the success of recovering all its costs through user fees, charges, and other receipts. Receipts are reported when received and disbursements are reported when paid.

Basis of Accounting

The basis of accounting is a set of guidelines that determine when financial events are recorded. The District has elected to present its financial statements on a cash basis of accounting. This basis of accounting is a basis of accounting other than accounting principles generally accepted in the United States of America. Under the District's cash basis of accounting, receipts and disbursements are recorded when cash is received or paid.

As a result of using the cash basis of accounting, certain assets and their related revenues (such as accounts receivable) and certain liabilities and their related expenses (such as accounts payable) are not recorded in the financial statements. Therefore, when reviewing the financial information and discussion within this report, the reader must keep in mind the limitations resulting from the use of the cash basis of accounting.

Reporting the District's Most Significant Funds

Fund financial statements provide detailed information about the District's major funds – not the District as a whole. The District establishes separate funds to better manage its many activities and to help demonstrate that money that is restricted as to how it may be used is being spent for the intended purpose. The funds of the District are represented in one proprietary category.

Proprietary Funds – When the District charges customers for the services it provides, these services are generally reported in proprietary funds. When the services are provided to the general public, the activity is reported as an enterprise fund. The District has three enterprise funds used for reporting purposes which are the water, sewer, and deposits funds.

Ayersville Water and Sewer District
 Defiance County, Ohio
 Management's Discussion and Analysis
 For the Year Ended December 31, 2012
 Unaudited

Ayersville Water and Sewer District as a Whole

Table 1 provides a summary of the District's net position for 2011 compared to 2012 on a cash basis. Net position of the District increased \$365,364 during 2012, due to the reasons explained in the explanations for changes after Table 2 on the following page.

(Table 1)
Net Position

	2012	2011	Change Amount
Assets			
Cash and Cash Equivalents	\$ 883,151	\$ 517,787	\$ 365,364
Total Assets	883,151	517,787	365,364
Net Position			
Unrestricted	883,151	517,787	365,364
Total Net Position	\$ 883,151	\$ 517,787	\$ 365,364

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Ayersville Water and Sewer District
Defiance County, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2012
Unaudited

Table 2 reflects the changes in net position in 2011 and 2012.

(Table 2)
Changes in Net Position

	Enterprise Funds		Changes
	2012	2011	
Receipts:			
Operating Receipts:			
Charges for Services	\$ 1,153,501	\$ 1,052,980	\$ 100,521
Other Operating Receipts	26,442	10,381	16,061
Total Operating Receipts	<u>1,179,943</u>	<u>1,063,361</u>	<u>116,582</u>
Disbursements:			
Operating Disbursements:			
Personal Services	114,189	112,856	1,333
Fringe Benefits	65,197	55,664	9,533
Contractual Services	364,318	336,440	27,878
Materials and Supplies	32,307	32,881	(574)
Other	973	391	582
Total Operating Disbursements	<u>576,984</u>	<u>538,232</u>	<u>38,752</u>
Operating Income (Loss)	<u>602,959</u>	<u>525,129</u>	<u>77,830</u>
Non-Operating Receipts (Disbursements)			
Interest	138	114	24
Special Assessments	119,714	126,220	(6,506)
Intergovernmental	0	1,163,666	(1,163,666)
Proceeds from OWDA loan	258,510	200,440	58,070
Capital Outlay	(302,551)	(708,372)	405,821
Principal Payments	(216,412)	(926,265)	709,853
Interest and Fiscal Charges	(96,994)	(88,932)	(8,062)
Total Non-Operating Receipts(Disbursements)	<u>(237,595)</u>	<u>(233,129)</u>	<u>(4,466)</u>
Change in Net Position	365,364	292,000	73,364
Net Position, January 1	517,787	225,787	292,000
Net Position, December 31	<u>\$ 883,151</u>	<u>\$ 517,787</u>	<u>\$ 365,364</u>

For 2012, operating cash receipts increased primarily due to a water and sewer rate increases. Operating cash disbursements increased \$38,752 from the prior year due to an increase in the volume of water purchased from the City of Defiance. Non-operating cash receipts and principal payments decreased due to the fact the District received intergovernmental receipts to retire OWDA Loan # 5204 in the amount of \$790,817 in 2011 as well as no longer had ARRA grant funding in 2012. OWDA loan proceeds increased by \$58,070 in 2012.

Ayersville Water and Sewer District
Defiance County, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2012
Unaudited

Capital Assets and Debt Administration

Capital Assets

The District does not currently keep track of its capital assets and infrastructure in the accompanying financial statements, but records payments for capital assets as disbursements. Capital outlay was \$302,551 in 2012.

Debt

At December 31, 2012, the District's outstanding debt included \$1,057,500 in United States Department of Agriculture rural development bonds issued for construction of the District's sanitary sewer project, \$378,326 in Ohio Water Development Authority (OWDA) loans for sewer related projects and \$418,089 in Ohio Water Development Authority (OWDA) loans for water related projects. For further information regarding the District's debt, refer to Note 7 to the basic financial statements.

Current Issues

The District is finalizing their Phase B Sewer Project and should have everything completed and the loan finalized by the end of 2014. No significant additional construction projects are anticipated in the near future. The District is working to put additional internal controls in place and establish an audit/finance committee to provide stronger oversight by the Board of Trustees.

Contacting the Ayersville Water and Sewer District's Financial Management

This financial report is designed to provide our citizens, taxpayers, investors, and creditors with a general overview of the District's finances and to reflect the District's accountability for the monies it receives. Questions concerning any of the information in this report or requests for additional information should be directed to Gayle Decator, Clerk, Ayersville Water and Sewer District, 13961 Fruit Ridge Road, Defiance, OH 43512.

**AYERSVILLE WATER AND SEWER DISTRICT
DEFIANCE COUNTY, OHIO**

*Statement of Fund Net Position - Cash Basis
Proprietary Funds
As of December 31, 2012*

	Enterprise Funds			Total
	Water Fund	Sewer Fund	Deposits Fund	Enterprise Funds
Assets				
Equity in Pooled Cash and Cash Equivalents	\$ 431,477	\$ 438,196	\$ 13,478	\$ 883,151
<i>Total Assets</i>	431,477	438,196	13,478	883,151
Net Position				
Unrestricted	\$ 431,477	\$ 438,196	\$ 13,478	\$ 883,151

See accompanying notes to the basic financial statements

**AYERSVILLE WATER AND SEWER DISTRICT
DEFIANCE COUNTY, OHIO**

*Statement of Cash Receipts, Disbursements and Changes in Fund Net Position - Cash Basis
Proprietary Funds
For the Year Ended December 31, 2012*

	Enterprise Funds			Total Enterprise Funds
	Water Fund	Sewer Fund	Deposits Fund	
Operating Receipts				
Charges for Services	\$ 543,416	\$ 607,383	\$ 2,702	\$ 1,153,501
Other Operating Receipts	9,785	16,657	0	26,442
<i>Total Operating Receipts</i>	<u>553,201</u>	<u>624,040</u>	<u>2,702</u>	<u>1,179,943</u>
Operating Disbursements				
Personal Services	18,451	95,738	0	114,189
Fringe Benefits	25,062	40,135	0	65,197
Contractual Services	167,380	196,938	0	364,318
Materials and Supplies	21,852	10,455	0	32,307
Other	0	0	973	973
<i>Total Operating Disbursements</i>	<u>232,745</u>	<u>343,266</u>	<u>973</u>	<u>576,984</u>
<i>Operating Income (Loss)</i>	<u>320,456</u>	<u>280,774</u>	<u>1,729</u>	<u>602,959</u>
Non-Operating Receipts (Disbursements)				
Interest	96	42	0	138
Special Assessments	0	119,714	0	119,714
Proceeds from OWDA Loans	0	258,510	0	258,510
Capital Outlay	(11,125)	(291,426)	0	(302,551)
Principal Payments	(56,145)	(160,267)	0	(216,412)
Interest and Fiscal Charges	(29,104)	(67,890)	0	(96,994)
<i>Total Non-Operating Receipts (Disbursements)</i>	<u>(96,278)</u>	<u>(141,317)</u>	<u>0</u>	<u>(237,595)</u>
<i>Change in Net Position</i>	224,178	139,457	1,729	365,364
<i>Net Position Beginning of Year</i>	<u>207,299</u>	<u>298,739</u>	<u>11,749</u>	<u>517,787</u>
<i>Net Position End of Year</i>	<u>\$ 431,477</u>	<u>\$ 438,196</u>	<u>\$ 13,478</u>	<u>\$ 883,151</u>

See accompanying notes to the basic financial statements

Ayersville Water and Sewer District
Defiance County, Ohio
Notes to the Financial Statements
For the Year Ended December 31, 2012

Note 1 – Reporting Entity

Ayersville Water and Sewer District, Defiance County, Ohio (the District), is a body 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 appointed by the Highland Township Board of Trustees for four year terms. The Board President is elected yearly by the other Board Members.

The reporting entity is comprised of the primary government.

A. Primary Government

The primary government consists of all funds, departments, boards and agencies that are not legally separate from the District. The District provides water and sewer services to residents of the District.

B. Component Units

Component units are legally separate organizations for which the District is financially accountable. The District is financially accountable for an organization if the District appoints a voting majority of the organization's governing board and (1) the District is able to significantly influence the programs or services performed or provided by the organization; or (2) the District is legally entitled to or can otherwise access the organization's resources; the District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide support to, the organization; or the District is obligated for the debt of the organization. The District is also financially accountable for any organizations that are fiscally dependent on the District in that the District approves their budget, the issuance of their debt or the levying of their taxes. Component units also include legally separate, tax-exempt entities whose resources are for the direct benefit of the District, are accessible to the District and are significant in amount to the District. Based on the criteria, the District has no component units.

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

As discussed further in Note 2.C, these financial statements are presented on a cash basis of accounting. This cash basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP). Generally accepted accounting principles include all relevant Governmental Accounting Standards Board (GASB) pronouncements, which have been applied to the extent they are applicable to the cash basis of accounting. Following are the more significant of the Ayersville Water and Sewer District's accounting policies.

A. Basis of Presentation

The District's basic financial statements consist of a statement of fund net position and a statement of cash receipts, disbursements, and changes in fund net position.

Ayersville Water and Sewer District
Defiance County, Ohio
Notes to the Financial Statements
For the Year Ended December 31, 2012

Fund Financial Statements

During the year, the District segregates transactions related to certain District activities in separate funds to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the District at this more detailed level. The focus of enterprise fund financial statements is on major funds. Each major fund is presented in a separate column. Non-major funds are aggregated and presented in a single column. The District does not have non-major funds.

Proprietary fund statements distinguish operating transactions from non-operating transactions. Operating receipts generally result from exchange transactions such as charges for services directly relating to the funds' principal services. Operating disbursements include costs of sales and services and administrative costs. The fund statements report all other receipts and disbursements as non-operating.

B. Fund Accounting

The District uses fund accounting 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. Funds are used to segregate resources that are restricted as to use. The District classifies its funds into the Enterprise Fund type.

Proprietary Funds

The District classifies funds financed primarily from user charges for goods or services as proprietary. Proprietary funds are classified as enterprise funds.

Enterprise Funds - Enterprise funds may be used to account for any activity for which a fee is charged to external users for goods or services. The District's major enterprise funds are the water, sewer and deposit funds.

Water Fund - The water fund accounts for the provision of water to the residents and commercial users located within the District.

Sewer Fund - The sewer fund accounts for the provision of sanitary sewer services to the residents and commercial users within the District. The District maintains several funds within their records to account for various activities for sewer purposes. Such funds have been combined for reporting purposes.

Deposits Fund - The deposits fund accounts for water and sewer deposits given to the District for security deposits for services.

C. Basis of Accounting

The District's financial statements are prepared using the cash basis of accounting. Receipts are recorded in the District's financial records and reported in the financial statements when cash is received rather than when earned and disbursements are recorded when cash is paid rather than when a liability is incurred.

Ayersville Water and Sewer District
Defiance County, Ohio
Notes to the Financial Statements
For the Year Ended December 31, 2012

As a result of the use of this cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities) are not recorded in these financial statements.

D. Budgetary Process

All funds are legally required to be budgeted and appropriated. The major documents prepared are the certificate of estimated resources, and the appropriations resolution, all of which are prepared on the budgetary basis of accounting. The certificate of estimated resources establishes a limit on the amount the District Board may appropriate.

The appropriations resolution is the District Board's authorization to spend resources and sets limits on cash disbursements plus encumbrances at the level of control selected by the District Board. The legal level of control has been established at the fund/function/object level for all funds.

The certificate of estimated resources may be amended during the year if projected increases or decreases in receipts are identified by the District Secretary/Treasurer.

The appropriations resolution is subject to amendment throughout the year with the restriction that appropriations cannot exceed estimated resources.

E. Cash and Investments

To improve cash management, cash received by the District is pooled and invested. Individual fund integrity is maintained through District records. Interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents."

Investments of the cash management pool and investments with an original maturity of three months or less at the time of purchase are presented on the financial statements as cash equivalents. Investments with an initial maturity of more than three months that were not purchased from the pool are reported as investments.

Investments are reported as assets. Accordingly, purchases of investments are not recorded as disbursements, and sales of investments are not recorded as receipts. Gains or losses at the time of sale are recorded as receipts or negative receipts (contra revenue), respectively.

F. Inventory and Prepaid Items

The District reports disbursements for inventories and prepaid items when paid. These items are not reflected as assets in the accompanying financial statements.

G. Capital Assets

Acquisitions of property, plant and equipment are recorded as disbursements when paid. These items are not reflected as assets in the accompanying financial statements.

Ayersville Water and Sewer District
Defiance County, Ohio
Notes to the Financial Statements
For the Year Ended December 31, 2012

H. Accumulated Leave

In certain circumstances, such as upon leaving employment or retirement, employees are entitled to cash payments for unused leave. Unpaid leave is not reflected as a liability under the District's cash basis of accounting.

I. Employer Contributions to Cost-Sharing Pension Plans

The District recognizes the disbursement for their employer contributions to cost-sharing pension plans when they are paid. As described in Notes 5 and 6, the employer contributions include portions for pension benefits and for postretirement health care benefits.

J. Long-Term Obligations

The District's cash basis financial statements do not report liabilities for bonds or other long-term obligations. Proceeds of debt are reported when the cash is received and principal and interest payments are reported when paid. Since recording a capital asset when entering into a capital lease is not the result of a cash transaction, neither an other financing source nor a capital outlay expenditure are reported at inception.

K. Net Position

Net positions are reported as restricted when there are limitations imposed on their use either through enabling legislation or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments.

The District's policy is to first apply restricted resources when an obligation is incurred for purposes for which both restricted and unrestricted net positions are available. There are no restricted net positions.

L. Implementation of New Accounting Policies

For the year ended December 31, 2012, the District has implemented Governmental Accounting Standard Board (GASB) Statement No. 62, "Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements" and GASB Statement No. 63, "Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position."

GASB Statement No. 62 incorporated into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements. The implementation of GASB Statement No. 62 did not have an effect on the financial statements of the District.

GASB Statement No. 63 provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. It also amends the net asset reporting requirements in GASB Statement No. 34 by incorporating deferred outflows and inflows into the definitions and renaming the residual measure as net position, rather than net assets.

Ayersville Water and Sewer District
Defiance County, Ohio
Notes to the Financial Statements
For the Year Ended December 31, 2012

Note 3 – Deposits and Investments

Monies held by the District are classified by State statute into three categories.

Active monies are public monies determined to be necessary to meet current demands upon the District treasury. Active monies must be maintained either as cash in the District treasury, in commercial accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

Inactive deposits are public deposits the Board has identified as not required for use within the current five year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.

Interim deposits are deposits of interim monies. Interim monies are those monies which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit or by savings or deposit accounts, including passbook accounts.

Interim monies may be deposited or invested in the following securities:

1. United States Treasury bills, bonds, notes, or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligation or security issued by any federal government agency or instrumentality including, but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least 2 percent and be marked to market daily, and the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio or Ohio local governments;
5. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;
6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
7. The State Treasurer's investment pool (STAR Ohio).
8. Certain bankers' acceptances for a period not to exceed one hundred eighty days and commercial paper notes for a period not to exceed one hundred eighty days in an amount not to exceed twenty-five percent of the interim moneys available for investment at any one time;

Ayersville Water and Sewer District
Defiance County, Ohio
Notes to the Financial Statements
For the Year Ended December 31, 2012

9. Linked deposits as authorized by ordinance adopted pursuant to section 135.80 of the Revised Code;
10. Commercial paper notes issued by any entity that is defined in division (D) of section 1705.01 of the Revised Code and has assets exceeding five hundred million dollars, and to which notes are rated at the time of purchase in the highest classification established by at least two standard rating services; the aggregate value of the notes does not exceed ten percent of the aggregate value of the outstanding commercial paper of the issuing corporation; the notes mature no later than one hundred eighty days after purchase; and
11. Bankers' acceptances of banks that are members of the federal deposit insurance corporation to which both the obligations are eligible for purchase by the federal reserve system and the obligations mature no later than one hundred eighty days after purchase.

Protection of the District's deposits is provided by the Federal Deposit Insurance Corporation (FDIC), by eligible securities pledged by the financial institution as a security for repayment, by surety company bonds deposited with the Treasurer by the financial institution, or by a single collateral pool established by the financial institution to secure the repayment of all public monies deposited with the institution.

The carrying amount of the District's deposits as of December 31, 2012 was \$882,951. The bank balance of the District's deposits as of December 31, 2012 was \$884,620. All of the District's deposits were either covered by FDIC balances or collateral pools in the manner designated in the following paragraph.

Custodial credit risk is the risk that, in the event of bank failure, the District's deposits may not be returned. All deposits are collateralized with eligible securities in amounts equal to at least 105% of the carrying value of the deposits. Such collateral, as permitted by Chapter 135 of the ORC, is held in financial institution pools at Federal Reserve Banks, or at member banks of the federal reserve system, in the name of the respective depository bank and pledged as a pool of collateral against all of the public deposits it holds or as specific collateral held at the Federal Reserve bank in the name of the District.

As of December 31, 2012, the District has \$200 in cash on hand which is included as part of "Equity in Pooled Cash and Cash Equivalents".

Note 4 – Risk Management

The District has obtained commercial insurance for the following risks:

- Comprehensive property and general liability.
- Vehicles; and
- Wrongful acts.

There has been no change in coverage and claims have not exceeded coverage in the past three years.

Note 5 – Defined Benefit Pension Plans

- A. The Ohio Public Employees Retirement System (OPERS) administers three separate pension plans as described below:

Ayersville Water and Sewer District
Defiance County, Ohio
Notes to the Financial Statements
For the Year Ended December 31, 2012

- 1) The Traditional Pension Plan (TP) – a cost sharing multiple-employer defined benefit pension plan.
 - 2) The Member-Directed Plan (MD) – a defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20% per year). Under the member-Directed Plan members accumulate retirement assets equal to the value of member and (vested) employer contributions plus any investment earnings.
 - 3) The Combined Plan (CO) – a cost-sharing multiple-employer defined benefit pension plan. Under the Combined Plan, OPERS invests employer contributions to provide a formula retirement benefit similar in nature to the Traditional Pension Plan benefit. Member contributions, the investment of which is self-directed by the members, accumulate retirement assets in a manner similar to the Member-Directed Plan.
- B. OPERS provides retirement, disability, survivor and death benefits and annual cost of living adjustments to members of the traditional and combined plans. Members of the member directed plan do not qualify for ancillary benefits.
- C. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code.
- D. OPERS issues a stand-alone financial report that may be obtained by writing to OPERS, 277 East Town Street, Columbus, OH 43215-4642 or by calling (614) 222-6705 or (800) 222-7377.
- E. The Ohio Revised Code provides statutory authority for member and employer contributions. For 2012, member and employer contribution rates were consistent across all three plans. Members may participate in all three plans.
- The member contribution rates were 10.0% of covered payroll for 2012, 2011, and 2010.
- The employer contribution rates were 14.0% of covered payroll for 2012, 2011, and 2010.
- F. The District's required contributions for pension obligations to the traditional and combined plans for the years ended December 31, 2012, 2011, and 2010 were \$15,986, \$15,800, and \$16,146 respectively; 100 percent has been contributed for 2012, 2011, and 2010.

Note 6 – Postemployment Benefits

A. Plan Description

Ohio Public Employees Retirement System (OPERS) administers three separate pension plans: The Traditional Pension Plan—a cost-sharing, multiple-employer defined benefit pension plan; the Member-Directed Plan—a defined contribution plan; and the Combined Plan—a cost-sharing, multiple-employer defined benefit pension plan that has elements of both a defined benefit and defined contribution plan.

OPERS maintains a cost-sharing multiple employer defined benefit post-employment health care plan, which includes a medical plan, prescription drug program and Medicare Part B premium reimbursement, to qualifying members of both the Traditional Pension and the Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits, including post-employment health care coverage.

Ayersville Water and Sewer District
Defiance County, Ohio
Notes to the Financial Statements
For the Year Ended December 31, 2012

In order to qualify for post-employment health care coverage, age-and-service retirees under the Traditional Pension and Combined Plans must have 10 or more years of qualifying Ohio service credit. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available. The health care coverage provided by OPERS meets the definition of an Other Post Employment Benefit (OPEB) as described in GASB Statement 45.

The Ohio Revised Code permits, but does not mandate, OPERS to provide OPEB benefits to its eligible members and beneficiaries. Authority to establish and amend benefits is provided in Chapter 145 of the Ohio Revised Code.

OPERS issues a stand-alone financial report. Interested parties may obtain a copy by visiting <https://www.opers.org/investments/cafr.shtml>, writing to OPERS, 277 East Town Street, Columbus, OH 43215-4642, or calling 614-222-5601 or 1-800-222-7377.

B. Funding Policy

The Ohio Revised Code provides the statutory authority requiring public employers to fund post-retirement health care through their contributions to OPERS. A portion of each employer's contribution to OPERS is set aside for the funding of post-retirement health care benefits.

Employer contribution rates are expressed as a percentage of the covered payroll of active members. In 2010, 2011, and 2012, state and local employers contributed at a rate of 14.00% of covered payroll. These are the maximum employer contribution rates permitted by the Ohio Revised Code. Active members do not make contributions to the OPEB Plan.

OPERS' Post Employment Health Care plan was established under, and is administrated in accordance with, Internal Revenue Code 401(h). Each year, the OPERS Board of Trustees determines the portion of the employer contribution rate that will be set aside for funding of post-employment health care benefits. For 2012 and 2011, the employer contributions allocated to the health care for members in the Traditional was 4.0%. The portion of employer contributions allocated to health care for members in the Combined Plan was 6.05% during calendar years 2012 and 2011. For 2010, the employer contributions allocated to the health care plan from January 1 through February 28, 2010 and March 1 through December 31, 2010 were 5.5% and 5.0%, respectively. The OPERS Board of Trustees is also authorized to establish rules for the retiree, or their surviving beneficiaries, to pay a portion of the health care benefits provided. Payment amounts vary depending on the number of covered dependents and the coverage selected.

- C. The employer contributions that were used to fund post-employment benefits were \$4,568 for 2012, \$4,514 for 2011 and \$4,613 for 2010 respectively; 100 percent has been contributed for 2012, 2011, and 2010.
- D. Changes to the health care plan adopted by the OPERS Board of Trustees on September 19, 2012, with a transition plan commencing January 1, 2014. With the recent passage of pension legislation under SB 343 and approved health care changes, OPERS expects to be able to consistently allocate 4 percent of the employer contributions toward the health care fund after the end of the transition period.

Ayersville Water and Sewer District
Defiance County, Ohio
Notes to the Financial Statements
For the Year Ended December 31, 2012

Note 7 – Debt

The District’s long-term debt activity for the year ended December 31, 2012, was as follows:

<u>Sewer Fund:</u>	Interest Rate	Original Issue Amount	Balance December 31, 2011	Additions	Deletions	Balance December 31, 2012	Due Within On Year
USDA Rural Develop- ment Bonds	4.75%	1,740,265	\$ 1,143,900	\$ 0	\$ 86,400	\$ 1,057,500	\$ 90,400
OWDA Loan #5864	2.82% & 3.95%	808,339	193,683	258,510	73,867	378,326	0
Total Sewer Fund			<u>1,337,583</u>	<u>258,510</u>	<u>160,267</u>	<u>1,435,826</u>	<u>90,400</u>
<u>Water Fund:</u>							
OWDA Loan # 1470	7.50%	129,634	54,584	0	7,536	47,048	8,101
OWDA Loan # 1473	7.03%	587,190	286,659	0	30,371	256,288	32,506
OWDA Loan # 2610	2.00%	204,066	64,364	0	11,193	53,171	11,417
OWDA Loan # 2611	2.00%	25,815	8,317	0	1,445	6,872	1,474
OWDA Loan # 3042	6.24%	117,012	60,310	0	5,600	54,710	5,949
Total Water Fund			<u>474,234</u>	<u>0</u>	<u>56,145</u>	<u>418,089</u>	<u>59,447</u>
Total Enterprise Funds			<u>\$ 1,811,817</u>	<u>\$ 258,510</u>	<u>\$ 216,412</u>	<u>\$ 1,853,915</u>	<u>\$ 149,847</u>

The United States Department of Agricultural Rural Development bonds are related to the construction of Phase A of the District's sanitary sewer project. Phase A of the sanitary sewer project was completed in 2002. The District started remitting payments for this loan on June 1, 2003.

The Ohio Water Development Authority (OWDA) loan relates to waterline extension projects, a water system construction project, the District office building project, equipment purchases, and engineering and technical services for the wastewater planning project.

The District has pledged future water and sewer customer revenues to repay \$3,612,321 in USDA Rural Development Bonds and OWDA loans issued from 1991 to 2012. Proceeds from the bonds and loans provided financing for the construction of the new waterlines and the Sanitary Sewer Project. The bonds are payable solely from water and sewer customer net revenues and are payable through 2022. Annual principal and interest payments remaining on the bonds and loans are expected to require less than 25 percent of revenues. The total principal and interest remaining to be paid on the bonds and loans is \$1,846,557. Principal and interest paid for the current year and total customer revenues were \$313,406 and \$1,299,795, respectively.

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Ayersville Water and Sewer District
 Defiance County, Ohio
 Notes to the Financial Statements
 For the Year Ended December 31, 2012

The following is a summary of the District's future annual debt service requirements:

Year	USDA Bonds		OWDA Loans	
	Principal	Interest	Principal	Interest
2013	\$ 90,400	\$ 49,167	\$ 59,447	\$ 26,160
2014	94,800	44,823	62,969	22,639
2015	99,200	40,267	66,726	18,882
2016	104,000	35,498	70,733	14,875
2017	108,900	30,501	67,961	10,601
2018-2022	560,200	68,615	90,253	8,941
Total	\$ 1,057,500	\$ 268,871	\$ 418,089	\$ 102,098

OWDA loan #5864 is still open as of December 31, 2012 and no amortization schedules have been established for this loan.

The OWDA loan #5864 is for costs relating to the design of the District's Sanitary Sewer Project. The design costs related to this project was not completed at December 31, 2012, and therefore this loan has not been finalized at December 31, 2012. The balance on this loan was \$378,326 at December 31, 2012. The District anticipates drawing additional funds from this loan in the future.

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Ayersville Water and Sewer District
 Defiance County, Ohio
 Notes to the Financial Statements
 For the Year Ended December 31, 2012

Note 8 – Budgetary Activity

Budgetary activity, which is accounted for on the cash basis of accounting, is as following for the year ended December 31, 2012:

2012 Budgeted vs. Actual Receipts			
	Budgeted Receipts	Actual Receipts	Variance
Fund			
Water	\$ 438,010	\$ 553,297	\$ 115,287
Sewer	624,040	1,002,306	378,266
Deposits	600	2,702	2,102
Total	\$ 1,062,650	\$ 1,558,305	\$ 495,655

2012 Budgeted vs. Actual Budgetary Basis Expenditures			
	Appropriation Authority	Budgetary Expenditures	Variance
Fund			
Water	\$ 546,291	\$ 329,119	\$ 217,172
Sewer	867,925	862,849	5,076
Deposits	1,600	973	627
Total	\$ 1,415,816	\$ 1,192,941	\$ 222,875

Note 9 – Contingencies

The District is party to various legal proceedings related to its Phase B Sewer Project. The ultimate disposition of various claims and legal proceedings will not have a material effect, if any on the financial condition of the District.

December 9, 2014

To the Board of Trustees
Ayersville Water and Sewer District
Defiance County, Ohio
13961 Fruit Ridge Road
Defiance, OH 43512

Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

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 each major fund of the Ayersville Water and Sewer District, Defiance County, Ohio (the District), as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated December 9, 2014, wherein we noted the District uses a special purpose framework other than generally accepted accounting principles.

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.

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or a combination of internal control deficiencies resulting in a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the District's financial statements. We consider finding 2012-001 described in the accompanying schedule of findings to be a material weakness.

A *significant deficiency* is a deficiency, or a combination of internal control deficiencies less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider findings 2012-002 through 2012-004 described in the accompanying schedule of findings to be significant deficiencies.

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 responses to the findings identified in our audit are described in the accompanying schedule of findings. We did not audit the District's responses and, accordingly, we express no opinion on them.

Purpose of this Report

This report only describes the scope of our internal control and compliance testing and our testing results, and does not opine on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Rea & Associates, Inc.

New Philadelphia, Ohio

Ayersville Water and Sewer District
Defiance County, Ohio
Schedule of Findings
For the Year Ended December 31, 2012

Finding Number: 2012-001

Material Weakness

Criteria: The District's management is responsible for designing and implementing internal controls over financial reporting. Segregation of duties is a critical element in the design of effective internal controls over financial reporting. Preparation of the financial statements in accordance with the applicable framework is the responsibility of management.

Condition: The Clerk has the primary responsibility for performing most of the accounting and financial duties. There were material audit adjustments made to the financial statements presented for audit. Financial statements presented for audit did not include complete and accurate Management Discussion and Analysis or Notes.

Cause: Some of the aspects of internal accounting control which rely upon adequate segregation of duties are missing in the District.

Effect: Sewer fund OWDA loan obligations were retired using resources from the water fund. Delinquent user charges collected by the County through special assessments were improperly classified on the statement of receipts, expenditures and changes in net position-cash basis as Special Assessments rather than Charges for Services. Delinquent water user charges collected by the County through special assessments were improperly receipted to the sewer fund. Beginning fund balances in UAN as of January 1, 2012 did not agree to the audited fund balances between the funds as management did not record prior year audit adjustments; however, the total fund balance did agree. Management's Discussion and Analysis and the Notes to the Basic Financial Statements were not completed accurately by management.

Recommendation: The supervision and periodic review procedures currently in place help mitigate the lack of proper segregation of duties and should be continued. The following suggestions are procedures which could be performed by the Manager or members of the Board of Trustees to further compensate for known weaknesses attributable to an inadequate segregation of duties:

- 1) Receive all bank statements unopened and review their contents
- 2) Review bank reconciliations carefully
- 3) Approve and monitor changes to payroll
- 4) Review monthly and annual financial statements and question variances
- 5) Have a questioning attitude
- 6) Review adjustments made to the District accounting system

Management's Response: The District is working with its accounting consultant to put additional internal controls in place and establish an audit/finance committee to provide stronger oversight by the Board of Trustees.

Finding Number: 2012-002

Significant Deficiency

Criteria: The District's management is responsible for designing and implementing internal controls over financial reporting as well as maintaining an adequate internal control structure over daily operations. Daily operations include both the receipting and disbursement processes of the District. Segregation of duties is a critical element in the design of effective internal controls over financial reporting.

Ayersville Water and Sewer District
Defiance County, Ohio
Schedule of Findings (Continued)
For the Year Ended December 31, 2012

Finding Number: 2012-002 (Continued)

Condition: We identified unsupported and unapproved customer account adjustments made to the utility billing system.

Cause: The District does not have adequate internal controls in place in regards to reviewing and approving adjustments to customer accounts and segregation of duties between the receipting function and the function of entering the receipt information into the utility billing system.

Effect: Customer payments could be received and not deposited to District bank accounts without being detected. Operating revenues could be understated on the financial statements. In addition, audit procedures revealed several instances where a customer made payment in cash and was issued a receipt, but no evidence of the payment being deposited to the District's bank account was identified. Audit procedures also identified other adjustments in which we noted the adjustment reduced the entire or a portion of an amount billed from a customer's balance with no explanation, no evidence of a subsequent billing for services provided and no evidence of an increase in the balance to a different customer account supporting the correction of any type of error.

Recommendation: We recommend the District establish a process to segregate the receipting function and the function of posting the receipt information into the utility billing system. We further recommend the District Manager and Board of Trustees run adjustment reports from the utility billing system periodically, review all posted adjustments and formally document the review and approval. The District should require the person posting the adjustment to document a description of the adjustment in sufficient detail. This documentation such be kept and made available for audit.

Management's Response: The District has established a process to verify the receipts of the District and the posting of those receipts into the billing system. The District is working with its accounting consultant to put additional internal controls in place and establish regular review of accounting reports by the Board of Trustees.

Finding Number: 2012-003

Significant Deficiency

Criteria: The District's management is responsible for designing and implementing internal controls over financial reporting. The District is also responsible for maintaining adequate records related to customer accounts including deposit balances.

Condition: The District lacks a detailed list of customer accounts with a deposit balance. We identified customer deposit collections recorded to the utility billing system that were not deposited to District bank accounts or received into the deposits fund in UAN.

Cause: The District does not perform regular reconciliations of deposit balances reported in the utility billing system to the deposit balances reported in UAN. In addition, the District does not record an entry to move cash from the deposits fund in UAN to the water and sewer funds when the customer's deposit balance is applied to the final amount owed. Furthermore, there are instances where customer deposit transactions were posted to an incorrect transaction type in the utility billing system in a way that causes the utility billing system to report an incorrect deposit balance.

Effect: There is a risk of misstatement in the water, sewer and deposits funds on the financial statements.

Ayersville Water and Sewer District
Defiance County, Ohio
Schedule of Findings (Continued)
For the Year Ended December 31, 2012

Finding Number: 2012-003 (Continued)

Recommendation: We recommend management review the existing deposit balances reported in the utility billing system and update the system to reflect the actual amounts held on deposit. This should be done in such a manner that a detailed list indicating each customer account, customer name, date and amount of deposit are presented. The UAN deposits fund balance should agree to the list generated by the utility billing system. A regular reconciliation of the deposits list and UAN should occur. A formal review and approval by someone independent of preparing the deposit list should be performed.

Management's Response: The District is working with its accounting consultant to put additional internal controls in place and establish a procedure whereby the District's management and Board of Trustees will review the existing deposit balances reported in the utility billing system and update the system to reflect the actual amounts held on deposit.

Finding Number: 2012-004

Significant Deficiency

Criteria: The District's management is responsible for designing and implementing internal controls over financial reporting as well as maintaining an internal control structure over daily operations. This includes having proper policies and procedures in place to reduce the risk of fraud or error.

Condition: The District does not have a sufficient accounting procedures manual to allow for seamless operations from one employee to the next.

Cause: The District has not approved an accounting procedures manual.

Effect: If an employee were to leave the District, much time and effort would be needed to maintain accounting procedures. Daily operations, including cash flow could be effected by lack of policies and procedures.

Recommendation: We recommend the District prepare an accounting procedures manual. The manual should include a chart of accounts, adequate explanations of account content, daily, month-end and year-end closing procedures, appropriate descriptions of all accounting procedures and routines and all matters that bear directly or indirectly on the functioning of the system of internal accounting control. Once the manual is complete, subsequent revisions should be subject to formal approval procedures.

Management's Response: The District is working with its accounting consultant to create an accounting procedure manual to ensure the District maintains consistency in its accounting practices.

Ayersville Water and Sewer District
Defiance County, Ohio
Schedule of Prior Audit Findings
For the Year Ended December 31, 2012

Finding Number	Finding Summary	Fully Corrected?	Corrected, Significantly Different Corrective Action Taken or Finding No Longer Valid Explain
2011-001	Questioned costs and unsupported expenditures	Yes	Corrected
2011-002	Material non-compliance (expenditures exceeding appropriations)	Yes	Corrected

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Dave Yost • Auditor of State

AYERSVILLE WATER AND SEWER DISTRICT

DEFIANCE 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
FEBRUARY 17, 2015**