



Dave Yost • Auditor of State

**AYERSVILLE WATER AND SEWER DISTRICT
DEFIANCE COUNTY
DECEMBER 31, 2017 AND 2016**

TABLE OF CONTENTS

TITLE	PAGE
Independent Auditor's Report	1
Prepared by Management:	
Combined Statement of Receipts, Disbursements, and Changes in Fund Balances (Regulatory Cash Basis) – For the Year Ended December 31, 2017	3
Notes to the Financial Statement – For the Year Ended December 31, 2017	4
Combined Statement of Receipts, Disbursements, and Changes in Fund Balances (Regulatory Cash Basis) – For the Year Ended December 31, 2016	9
Notes to the Financial Statement – For the Year Ended December 31, 2016.....	10
Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Required By <i>Government Auditing Standards</i>	15
Schedule of Findings.....	17
Summary Schedule of Prior Audit Findings (Prepared by Management).....	18

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Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT

Ayersville Water and Sewer District
Defiance County
13961 Fruit Ridge Road
Defiance, Ohio 43512-6985

To the Board of Trustees:

Report on the Financial Statements

We have audited the accompanying financial statements of the cash balances, receipts and disbursements, and related notes of Ayersville Water and Sewer District, Defiance County, Ohio (the District) as of and for the years ended December 31, 2017 and 2016.

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 such 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, 2017 and 2016, and the respective changes in financial position or cash flows thereof for the years then ended.

Opinion on Regulatory Basis of Accounting

In our opinion, the financial statements referred to above present fairly, in all material respects, the cash balances, receipts and disbursements, and related notes of Ayersville Water and Sewer District, Defiance County, Ohio as of December 31, 2017 and 2016, 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 October 3, 2018, 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

October 3, 2018

Ayersville Water and Sewer District
Defiance County
Combined Statement of Receipts, Disbursements
And Changes in Fund Balances (Regulatory Cash Basis)
For the Year Ended December 31, 2017

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Operating Cash Receipts	
Charges for Services	\$996,168
Miscellaneous	2,249
	<hr/>
<i>Total Operating Cash Receipts</i>	<i>998,417</i>
	<hr/>
Operating Cash Disbursements	
Personal Services	149,024
Fringe Benefits	55,035
Other Contractual Services	528,786
Supplies and Materials	62,089
Other	1,200
	<hr/>
<i>Total Operating Cash Disbursements</i>	<i>796,134</i>
	<hr/>
<i>Operating Income</i>	<i>202,283</i>
	<hr/>
Non-Operating Cash Receipts	
Transfers In	182,167
Special Assessments	266,175
Earnings on Investment	7,446
Miscellaneous	22,350
Other Non-Operating Revenues	825
	<hr/>
<i>Total Non-Operating Cash Receipts</i>	<i>478,963</i>
	<hr/>
Non-Operating Cash Disbursements	
Transfers Out	182,167
Capital Outlay	9,930
Debt Service Principal Payments	166,950
Debt Service Interest and Fiscal Charges	46,176
	<hr/>
<i>Total Non-Operating Cash Disbursements</i>	<i>405,223</i>
	<hr/>
<i>Net Receipts Over Disbursements</i>	<i>276,023</i>
	<hr/>
Cash Balances, January 1	2,357,089
	<hr/>
<i>Cash Balances, December 31</i>	<i>\$2,633,112</i>
	<hr/> <hr/>

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

Ayersville Water and Sewer District
Defiance County
Notes to the Financial Statement
For the Year Ended December 31, 2017

Note 1 – Description of the Entity

The constitution and laws of the State of Ohio establish the rights and privileges for the Ayersville Water and Sewer District, Defiance County, Ohio (the District) as a body corporate and politic. 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 District provides water and sewer services to residents of the District.

The District's management believes this financial statement presents all activities for which the District is financially accountable.

Note 2 – Summary of Significant Accounting Policies

A. Basis of Presentation

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

B. Basis of Accounting

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

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

C. Deposits and Investments

The District's accounting basis includes investments as assets. This basis does not record disbursements for investment purchases or receipts for investment sales. This basis records gains or losses at the time of sale as receipts or disbursements, respectively.

D. 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.

Ayersville Water and Sewer District
Defiance County
Notes to the Financial Statement
For the Year Ended December 31, 2017

Note 2 – Summary of Significant Accounting Policies (continued)

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 the deposits 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.

E. Budgetary Process

The Ohio Revised Code requires the Board to budget annually.

1. Appropriations

Budgetary expenditures (that is, disbursements and encumbrances) may not exceed appropriations at the fund or object level of control, and appropriations may not exceed estimated resources. Appropriation Authority includes current year appropriations plus encumbrances carried over from the prior year (if any). Appropriations lapse at year end.

2. Estimated Resources

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

3. Encumbrances

The Ohio Revised Code requires the District to reserve (encumber) appropriations when commitments are made. Encumbrances outstanding at year end are carried over, and need not be reappropriated.

A summary of 2017 budgetary activity appears in Note 3.

F. Capital Assets

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

Ayersville Water and Sewer District
Defiance County
Notes to the Financial Statement
For the Year Ended December 31, 2017

Note 2 – Summary of Significant Accounting Policies (continued)

G. Inventory and Prepaid Items

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

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 in the financial statement.

I. Long-Term Obligations

The District's financial statement does 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.

Note 3 – Budgetary Activity

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

2017 Budgeted vs. Actual Receipts		
Budgeted Receipts	Actual Receipts	Variance
\$1,328,234	\$1,477,380	\$149,146

2017 Budgeted vs. Actual Budgetary Basis Expenditures		
Appropriation Authority	Budgetary Expenditures	Variance
\$1,678,182	\$1,201,357	\$476,825

Note 4 – Deposits

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

Demand deposits	2017 \$370,486
Certificates of deposit	2,262,626
Total deposits	\$2,633,112

Deposits

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

Ayersville Water and Sewer District
Defiance County
Notes to the Financial Statement
For the Year Ended December 31, 2017

Note 5 – Risk Management

Commercial Insurance

The District has obtained commercial insurance for the following risks:

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

Note 6 – 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 percent of their gross salaries and the District contributed an amount equaling 14 percent of participants' gross salaries. The District has paid all contributions required through December 31, 2017.

Social Security

The District's trustees contributed to Social Security. This plan provides retirement benefits, including survivor and disability benefits to participants.

Employees contributed 6.2 percent of their gross salaries. The District contributed an amount equal to 6.2 percent of participants' gross salaries. The District has paid all contributions required through December 31, 2017.

Note 7 – 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. The portion of employer contributions allocated to health care for members in the Traditional Pension Plan and Combined Plan was 1.0 percent during calendar year 2017.

Ayersville Water and Sewer District
Defiance County
Notes to the Financial Statement
For the Year Ended December 31, 2017

Note 8 – Debt

The District’s long-term debt activity for the year ended December 31, 2017, was as follows:

	Principal	Interest Rate
USDA Rural Development Bonds	\$560,200	4.75%
OWDA Loans	432,188	Various
Total	\$992,388	

The District’s long-term debt activity for the year ended December 31, 2017, was as follows:

	Interest Rate	Original Issue Amount	Balance as of January 1, 2017	Additions	Deletions	Balance as of December 31, 2017	Due Within One Year
<u>Sewer Fund:</u>							
USDA Rural Develop- ment Bonds	4.75%	1,740,265	\$ 669,100		\$ 108,900	\$ 560,200	\$ 114,500
OWDA Loan #5864	2.82%	808,339	332,024		(9,910)	341,934	11,423
Total Sewer Fund			1,001,124		98,990	902,134	125,923
<u>Water Fund</u>							
OWDA Loan # 1470	7.50%	129,634	10,814		10,814		
OWDA Loan # 1473	7.03%	587,190	111,898		42,656	69,242	45,656
OWDA Loan # 2610	2.00%	204,066	6,116		6,116		
OWDA Loan # 2611	2.00%	25,815	795		795		
OWDA Loan # 3042	6.24%	117,012	28,591		7,579	21,012	8,052
Total Water Fund			158,214		67,960	90,254	53,708
Total Enterprise Funds			\$ 1,159,338		\$ 166,950	\$ 992,388	\$ 179,631

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) loans relate 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 following is a summary of the District’s future annual debt service requirements:

	USDA Bonds		OWDA Loans	
	Principal	Interest	Principal	Interest
2018	\$ 114,500	\$ 26,100	\$ 65,131	\$ 8,172
2019	119,600	20,662	55,472	10,441
2020	125,800	14,980	28,399	8,155
2021	131,900	9,005	24,676	7,295
2022	68,400	2,740	25,377	6,594
2023-2030			233,133	25,017
Total	\$ 560,200	\$ 73,487	\$ 432,188	\$ 65,674

Ayersville Water and Sewer District
Defiance County
Combined Statement of Receipts, Disbursements
And Changes in Fund Balances (Regulatory Cash Basis)
For the Year Ended December 31, 2016

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Operating Cash Receipts	
Charges for Services	\$1,005,236
Miscellaneous	25,129
	<hr/>
<i>Total Operating Cash Receipts</i>	<i>1,030,365</i>
	<hr/>
Operating Cash Disbursements	
Personal Services	137,684
Fringe Benefits	66,991
Other Contractual Services	482,503
Supplies and Materials	102,570
Other	589
	<hr/>
<i>Total Operating Cash Disbursements</i>	<i>790,337</i>
	<hr/>
<i>Operating Income</i>	<i>240,028</i>
	<hr/>
Non-Operating Cash Receipts	
Transfers In	344,267
Special Assessments	282,115
Earnings on Investments	5,246
Miscellaneous	20,003
	<hr/>
<i>Total Non-Operating Cash Receipts</i>	<i>651,631</i>
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Non-Operating Cash Disbursements	
Transfers Out	344,267
Capital Outlay	23,541
Debt Service Principal Payments	223,707
Debt Service Interest and Fiscal Charges	56,257
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<i>Total Non-Operating Cash Disbursements</i>	<i>647,772</i>
	<hr/>
<i>Net Receipts Over Disbursements</i>	<i>243,887</i>
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Cash Balances, January 1	2,113,202
	<hr/>
<i>Cash Balances, December 31</i>	<i>\$2,357,089</i>
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The notes to the financial statement are an integral part of this statement.

Ayersville Water and Sewer District
Defiance County
Notes to the Financial Statement
For the Year Ended December 31, 2016

Note 1 – Description of the Entity

The constitution and laws of the State of Ohio establish the rights and privileges for the Ayersville Water and Sewer District, Defiance County, Ohio (the District) as a body corporate and politic. 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 District provides water and sewer services to residents of the District.

The District's management believes this financial statement presents all activities for which the District is financially accountable.

Note 2 – Summary of Significant Accounting Policies

A. Basis of Presentation

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

B. Basis of Accounting

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

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

C. Deposits and Investments

The District's accounting basis includes investments as assets. This basis does not record disbursements for investment purchases or receipts for investment sales. This basis records gains or losses at the time of sale as receipts or disbursements, respectively.

D. 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.

Ayersville Water and Sewer District
Defiance County
Notes to the Financial Statement
For the Year Ended December 31, 2016

Note 2 – Summary of Significant Accounting Policies (continued)

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 the deposits 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.

E. Budgetary Process

The Ohio Revised Code requires the Board to budget annually.

1. Appropriations

Budgetary expenditures (that is, disbursements and encumbrances) may not exceed appropriations at the fund or object level of control, and appropriations may not exceed estimated resources. Appropriation Authority includes current year appropriations plus encumbrances carried over from the prior year (if any). Appropriations lapse at year end.

2. Estimated Resources

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

3. Encumbrances

The Ohio Revised Code requires the District to reserve (encumber) appropriations when commitments are made. Encumbrances outstanding at year end are carried over, and need not be reappropriated.

A summary of 2016 budgetary activity appears in Note 3.

F. Capital Assets

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

Ayersville Water and Sewer District
Defiance County
Notes to the Financial Statement
For the Year Ended December 31, 2016

Note 2 – Summary of Significant Accounting Policies (continued)

G. Inventory and Prepaid Items

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

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 in the financial statements.

I. Long-Term Obligations

The District's 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.

Note 3 – Budgetary Activity

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

2016 Budgeted vs. Actual Receipts		
Budgeted Receipts	Actual Receipts	Variance
\$1,628,500	\$1,681,996	\$53,496

2016 Budgeted vs. Actual Budgetary Basis Expenditures		
Appropriation Authority	Budgetary Expenditures	Variance
\$1,822,905	\$1,438,109	\$384,796

Note 4 – Deposits

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

Demand deposits	2016 \$376,945
Certificates of deposit	1,980,144
Total deposits	\$2,357,089

Ayersville Water and Sewer District
Defiance County
Notes to the Financial Statement
For the Year Ended December 31, 2016

Note 4 – Deposits and Investments (continued)

Deposits

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

Note 5 – Risk Management

Commercial Insurance

The District has obtained commercial insurance for the following risks:

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

Note 6 – 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 percent of their gross salaries and the District contributed an amount equaling 14 percent of participants' gross salaries. The District has paid all contributions required through December 31, 2016.

Social Security

The District's trustees contributed to Social Security. This plan provides retirement benefits, including survivor and disability benefits to participants.

Employees contributed 6.2 percent of their gross salaries. The District contributed an amount equal to 6.2 percent of participants' gross salaries. The District has paid all contributions required through December 31, 2016.

Note 7 – 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. The portion of employer contributions allocated to health care for members in the Traditional Pension Plan and Combined Plan was 2.0 percent during calendar year 2016.

Ayersville Water and Sewer District
Defiance County
Notes to the Financial Statement
For the Year Ended December 31, 2016

Note 8 – Debt

The District’s long-term debt activity for the year ended December 31, 2016, was as follows:

	Principal	Interest Rate
USDA Rural Development Bonds	\$669,100	4.75%
OWDA Loans	490,238	Various
Total	\$1,159,338	

	Interest Rate	Original Issue Amount	Balance as of January 1, 2016	Additions	Deletions	Balance as of December 31, 2016	Due Within One Year
<u>Sewer Fund:</u>							
USDA Rural Development Bonds	4.75%	1,740,265	\$ 773,100	\$ -	\$ 104,000	\$ 669,100	\$ 108,900
OWDA Loan #5864	2.82%	808,339	380,997		48,973	332,024	
Total Sewer Fund			1,154,097		152,973	1,001,124	108,900
<u>Water Fund</u>							
OWDA Loan # 1470	7.50%	129,634	20,877		10,064	10,813	10,815
OWDA Loan # 1473	7.03%	587,190	151,754		39,856	111,898	42,657
OWDA Loan # 2610	2.00%	204,066	18,231		12,115	6,116	6,116
OWDA Loan # 2611	2.00%	25,815	2,360		1,565	795	794
OWDA Loan # 3042	6.24%	117,012	35,725		7,134	28,591	7,579
Total Water Fund			228,947		70,734	158,213	67,961
Total Enterprise Funds			\$ 1,383,044	\$ -	\$ 223,707	\$ 1,159,337	\$ 176,861

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) loans relate 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 following is a summary of the District’s future annual debt service requirements:

	USDA Bonds		OWDA Loans	
	Principal	Interest	Principal	Interest
2017	\$ 108,900	\$ 29,995	\$ 67,961	\$ 6,570
2018	114,500	26,100	65,131	8,172
2019	119,600	20,662	55,472	10,119
2020	125,800	14,981	28,399	8,155
2021	131,900	9,005	24,676	7,295
2022-2030	68,400	2,740	248,598	31,611
Total	\$ 669,100	\$ 103,483	\$ 490,237	\$ 71,922



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*

Ayersville Water and Sewer District
Defiance County
13961 Fruit Ridge Road
Defiance, Ohio 43512-6985

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 cash balances, receipts, and disbursement of Ayersville Water and Sewer District, Defiance County, Ohio (the District) as of and for the years ended December 31, 2017 and 2016, and the related notes to the financial statements, and have issued our report thereon dated October 3, 2018 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 2017-001 to be a material weakness.

Compliance and Other Matters

As part of reasonably assuring whether the District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, opining on compliance with those provisions was not an objective of our

audit and accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

District's Response to Finding

The District's response to the finding identified in our audit is described in the accompanying schedule of findings. We did not subject the District's response to the auditing procedures applied in the audit of the financial statements 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 report is not suitable for any other purpose.

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive style with a large, looping "D" and "Y".

Dave Yost
Auditor of State

Columbus, Ohio

October 3, 2018

**AYERSVILLE WATER AND SEWER DISTRICT
DEFIANCE COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2017 AND 2016**

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

FINDING NUMBER 2017-001

Material Weakness - Financial Reporting

In our audit engagement letter, as required by AU-C Section 210, *Terms of Engagement*, paragraph .06, management acknowledged its responsibility for the preparation and fair presentation of their financial statements; this responsibility includes designing, implementing and maintaining internal control relevant to preparing and fairly presenting financial statements free from material misstatement, whether due to fraud or error as discussed in AU-C Section 210 paragraphs .A14 & .A16.

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

The following errors were noted in the District's financial statements and footnotes:

- During 2017, the District improperly coded the following disbursements within the Water Fund: Fringe Benefits of \$9,223, Contractual Services of \$21,933, and Materials and Supplies of \$1,584.
- During 2017, the District improperly coded the following disbursements within the Sewer Fund: Fringe Benefits of \$9,223, Contractual Services of \$16,668, and Materials and Supplies of \$13,842.
- During 2016, the District improperly coded the following disbursements within the Water Fund: Fringe Benefits of \$17,061, Contractual Services of \$17,441, and Materials and Supplies of \$5,418.
- During 2016, the District improperly coded the following disbursements within the Sewer Fund: Fringe Benefits of \$17,061, Contractual Services of \$14,277, and Materials and Supplies of \$24,139.
- Special Assessment receipts of \$76,806 were improperly recorded as Other Financing Sources within the Sewer Fund in 2016.

These errors were not identified and corrected prior to the District preparing its financial statements and footnotes due to deficiencies in the District's internal controls over financial statement monitoring. The accompanying financial statements and footnotes have been adjusted to correct these errors. Failing to prepare accurate financial statements could lead to the Board or financial statement user to make misinformed decisions.

To help ensure the District's financial statements are complete and accurate, the District should adopt procedures, including a final review of the annual report by Trustees to identify and correct errors, omissions, and misclassifications.

Officials' Response

The District is working to put additional internal controls in place to provide stronger accounting procedures and oversight by the Board of Trustees.

**AYERSVILLE WATER AND SEWER DISTRICT
DEFIANCE COUNTY**

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2017 AND 2016**

Finding Number	Finding Summary	Status	Additional Information
2015-001	Finding first issued in the 2012-2013 audit. Material weakness for improper coding in UAN for receipts and disbursements which led to adjustments made to the audited financial statements.	Not corrected; repeated as material weakness finding.	This finding reoccurred due to inadequate policies and procedures in reviewing the financial statements and accounting records throughout the audit period. The District is implementing procedures to correct the errors in the future.
2015-002	Significant deficiency for not performing a regular reconciliation of security deposit balances reporting in the utility billing system to the deposit balances reported in UAN.	Partially corrected; repeated in Management Letter	The District tracks customer security deposit accounts in UAN and the utility billing system. The deposit, however, remains in this fund after the final payment rather than being moved to the appropriate fund. The District will work on correcting this for the future.



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
OCTOBER 18, 2018**