



JIM PETRO
AUDITOR OF STATE

STATE OF OHIO

**AYERSVILLE WATER AND SEWER DISTRICT
DEFIANCE COUNTY**

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STATE OF OHIO
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REPORT OF INDEPENDENT ACCOUNTANTS

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

To the Board of Trustees:

We have audited the accompanying financial statements of Ayersville Water and Sewer District (the District) as of and for the year ended December 31, 2001, as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, the District prepares its financial statements on the basis of accounting prescribed or permitted by the Auditor of State, which is a comprehensive basis of accounting other than generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the combined fund cash balances of the Ayersville Water and Sewer District, Defiance County, as of December 31, 2001, and its combined cash receipts and cash disbursements for the year then ended on the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 13, 2002 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 grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

We performed our audit to form an opinion on the financial statements of the District, taken as a whole. The accompanying schedule of federal awards expenditures is presented for additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statements. We subjected this information to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the general-purpose financial statements taken as a whole.

This report is intended solely for the information and use of management, Board of Trustees, federal awarding agencies and other officials authorized to receive this report under § 117.26, Ohio Revised Code, and is not intended to be and should not be used by anyone other than these specified parties

A handwritten signature in black ink, appearing to read "Jim Petro", written in a cursive style.

Jim Petro
Auditor of State

May 13, 2002

**AYERSVILLE WATER AND SEWER DISTRICT
DEFIANCE COUNTY**

**STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS,
AND CHANGES IN CASH BALANCES
ENTERPRISE FUNDS - FOR THE YEAR ENDED DECEMBER 31, 2001**

Operating Cash Receipts:	
Charges for Services	\$325,411
Miscellaneous	2,348
	327,759
Operating Cash Disbursements:	
Personal Services	77,638
Travel/Transportation	2,328
Contractual Services	2,547,655
Chemicals and Operating Supplies	14,629
Capital Outlay	13,080
	2,655,330
Operating Loss	(2,327,571)
Non-Operating Cash Receipts:	
Proceeds from Loans	2,129,282
Other Non-Operating Revenues	81,139
	2,210,421
Non-Operating Cash Disbursements:	
Debt Service	(107,737)
Other Non-Operating Cash Disbursements	(2,275)
	(110,012)
Net Disbursements Over Receipts	(227,162)
Cash Balances, January 1	620,788
Cash Balances, December 31	\$393,626

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

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**AYERSVILLE WATER AND SEWER DISTRICT
DEFIANCE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2001**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of the Entity

Ayersville Water and Sewer District, Defiance County, (the District) is a body corporate and politic established to exercise the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The District is directed by a seven-member Board of Trustees appointed by the Highland Township Board of Trustees. The District provides water and sewer services to residents of the District.

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

B. Basis of Accounting

These financial statements follow the basis of accounting prescribed or permitted by the Auditor of State, which is similar to the cash receipts and disbursements basis of accounting. Receipts are recognized when received in cash rather than when earned, and disbursements are recognized when paid rather than when a liability is incurred.

These statements include adequate disclosure of material matters, as prescribed or permitted by the Auditor of State.

C. Deposits and Investments

Certificates of deposit are valued at cost.

D. Fund Accounting

The District uses fund accounting to segregate cash and investments that are restricted as to use. The District classifies its funds into the Enterprise Fund Type.

Enterprise Funds account for operations that are similar to private business enterprises where management intends that the significant costs of providing certain goods or services will be recovered through user charges. The District had the following significant Enterprise Funds:

Water Fund - This fund receives charges for services from residents to cover the cost of providing this utility.

Sewer Fund - This fund receives charges for services from residents to cover the cost of providing this utility.

Capital Projects Sewer Phase A Fund - This fund received loan proceeds from the United States Department of Agricultural Rural Development, and Ohio Water Development Authority to fund phase A of the District's sanitary sewer facility. These loans will be repaid from charges for services from residents to cover the cost of providing this project.

Capital Projects Sewer 1-1999 Fund - This fund received revenues assessed on District residents that will benefit from Phase A of the Sanitary Sewer facility. These funds were used to disburse the District's portion of the expenses relating to Phase A of the Sanitary Sewer project.

**AYERSVILLE WATER AND SEWER DISTRICT
DEFIANCE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2001
(Continued)**

E. Budgetary Process

The Ohio Revised Code requires the District to adopt an annual budget.

1. Appropriations

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

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. The District did not use the encumbrance method of accounting or certify the availability of funds contrary to the requirements of the Ohio Revised Code.

A summary of 2001 budgetary activity appears in Note 3.

F. Property, Plant and Equipment

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

G. Accumulated Leave

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

2. EQUITY IN POOLED CASH AND INVESTMENTS

The District invests in Certificates of deposit.

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

	<u>2001</u>
Demand deposits	\$339,796
Certificates of deposit	<u>53,830</u>
Total deposits and investments	<u><u>\$393,626</u></u>

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

**AYERSVILLE WATER AND SEWER DISTRICT
DEFIANCE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2001
(Continued)**

3. BUDGETARY ACTIVITY

Budgetary activity for the year ending December 31, 2001 follows:

Budgeted vs. Actual Receipts	
	2001
Budgeted Receipts	\$4,491,508
Actual Receipts	2,538,180
Variance	(\$1,953,328)

Budgeted vs. Actual Budgetary Basis Expenditures	
	2001
Appropriation Authority	\$5,112,296
Budgetary Expenditures	2,765,342
Variance	\$2,346,954

4. DEBT

Debt outstanding at December 31, 2001 was as follows:

	Principal	Interest Rate
Ohio Water Development Authority	\$974,280	2 to 7%

These 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.

Amortization of the above debt, including interest, is scheduled as follows:

Year ending December 31:	OWDA Loans
2002	\$107,737
2003	107,737
2004	107,737
2005	101,816
2006	95,896
Subsequent	1,016,752
Total	\$1,537,675

**AYERSVILLE WATER AND SEWER DISTRICT
DEFIANCE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2001
(Continued)**

The District is also currently financing the construction of phase A of its sanitary sewer plant with financing from the, Ohio Water Development Authority, (OWDA) the Ohio Public Works Commission, (OPWC), and the United States Department of Agricultural (USDA) Rural Development.

The OWDA portion of this financing consists of three loans that were used to disburse the engineering and technical services cost related to planning phase A of the sanitary sewer project. OWDA combined these loans together with a new loan used to finance its portion of the ongoing construction cost related to phase A of the sanitary sewer project into one loan, (OWDA loan #2612). Construction of Phase A of the sanitary sewer project was not completed at December 31, 2001. Therefore this loan has not been finalized. At December 31, 2001, this loan had an outstanding balance of \$2,452,115.

OPWC is currently financing one percent of the ongoing construction cost related to phase A of the sanitary sewer project. Construction of Phase A of the sanitary sewer project was not completed at December 31, 2001. Therefore this loan has not been finalized. As of December 31, 2001 the District's obligation on this loan was \$23,297.

USDA Rural Development is financing the remaining ongoing construction cost related to phase A of the sanitary sewer project. At the completion of the project, USDA Rural Development will reimburse OWDA and OPWC their portion of phase A of the sanitary sewer financed by these agencies. The total amount of debt related to phase A of the sanitary sewer project will be combined into one loan, and the District will be required to make payments to USDA Rural Development. Phase A of the sanitary sewer project was not completed at December 31, 2001. Therefore this loan has not been finalized, nor has a loan repayment schedule been established. As of December 31, 2001 the District's obligation on this loan was \$549,021.

5. RETIREMENT SYSTEMS

The District's full-time employees belong to the Public Employees Retirement System (PERS) of Ohio. PERS is a cost-sharing, multiple-employer plan. This plan provides retirement benefits, including postretirement healthcare, and survivor and disability benefits to participants as prescribed by the Ohio Revised Code.

Contribution rates are also prescribed by the Ohio Revised Code. For 2001 member employees contributed 8.5% of their gross salaries. The District contributed an amount equal to 13.55% of participants' gross salaries through December 31, 2001. The District has paid all contributions required through December 31, 2001.

6. RISK MANAGEMENT

The District has obtained commercial insurance for the following risks:

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

**AYERSVILLE WATER AND SEWER DISTRICT
DEFIANCE COUNTY**

**SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FOR THE YEAR ENDED DECEMBER 31, 2001**

FEDERAL GRANTOR	Federal	
Program Title	CFDA	
<hr/>	Number	<hr/>
U.S. DEPARTMENT OF AGRICULTURE		
Water and Wastewater Disposal for Rural Communities	10.760	<u>\$1,908,928</u>

The accompanying notes are an integral part of this schedule.

**AYERSVILLE WATER AND SEWER DISTRICT
DEFIANCE COUNTY**

**NOTES TO SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FISCAL YEAR ENDED DECEMBER 31, 2001**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The accompanying Schedule of Federal Awards Expenditures (the Schedule) summarizes activity of the District's federal award programs. The schedule has been prepared on the cash basis of accounting.

NOTE B - MATCHING REQUIREMENTS

The Water and Waste Disposal Federal program requires that the District contribute non-Federal funds (matching funds) to support the Federally-funded program. Ayersville Water and Sewer District has complied with the matching requirements. The expenditure of non-Federal matching funds is not included on the Schedule.



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**REPORT OF INDEPENDENT ACCOUNTANTS ON COMPLIANCE AND ON
INTERNAL CONTROL 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 the financial statements of Ayersville Water and Sewer District (the District) as of and for the year ended December 31, 2001, and have issued our report thereon dated May 13, 2002. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2001-60120-001 and 2001-60120-002. We also noted a certain immaterial instance of noncompliance that we have reported to management of the District in a separate letter dated May 13, 2002.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of the District in a separate letter dated May 13, 2002.

Ayersville Water and Sewer District
Defiance County
Report of Independent Accountants on Compliance and on
Internal Control Required by *Government Auditing Standards*
Page 2

This report is intended for the information and use of, management, Board of Trustees and federal awarding agencies, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, appearing to read "Jim Petro". The signature is stylized with a large, looping initial "J" and a cursive "Petro".

Jim Petro
Auditor of State

May 13, 2002



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**REPORT OF INDEPENDENT ACCOUNTANTS ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO MAJOR FEDERAL PROGRAMS AND INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

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

To the Board of Trustees:

Compliance

We have audited the compliance of Ayersville Water and Sewer District (the District) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement* that are applicable to its major federal program for the year ended December 31, 2001. The District's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance occurred with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the District's compliance with those requirements.

In our opinion, the District complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended December 31, 2001.

Internal Control Over Compliance

The management of the District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended for the information and use of management, Board of Trustees, and federal awarding agencies, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, appearing to read "Jim Petro", with a stylized, cursive script.

Jim Petro
Auditor of State

May 13, 2002

**AYERSVILLE WATER AND SEWER DISTRICT
DEFIANCE COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
DECEMBER 31, 2001**

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of Financial Statement Opinion	Unqualified
(d)(1)(ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(ii)	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(iii)	Was there any reported material noncompliance at the financial statement level (GAGAS)?	Yes
(d)(1)(iv)	Were there any material internal control weakness conditions reported for major federal programs?	No
(d)(1)(iv)	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Unqualified
(d)(1)(vi)	Are there any reportable findings under § .510?	No
(d)(1)(vii)	Major Programs (list):	Water and Waste Water Disposal for Rural Communities CFDA #10.760
(d)(1)(viii)	Dollar Threshold: Type A\B Programs	Type A: > \$ 300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	No

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

FINDING NUMBER 2001-60120-001

Ohio Revised Code § 5705.41 (D) states no orders or contracts involving the expenditure of money are to be made unless there is a certificate of the fiscal officer that the amount required for the order or contract has been lawfully appropriated and is in the treasury or in the process of collection to the credit of an appropriate fund free from any previous encumbrances.

The following exceptions to this basic requirement are provided by statute:

- A. Then and Now Certificates: This exception provides that, if the fiscal officer can certify that both at the time that the contract or order was made and at the time that he is completing his certification, sufficient funds were available or in the process of collection, to the credit of a proper fund, properly appropriated and free from any previous encumbrance, the taxing authority can authorize the drawing of a warrant. The taxing authority has 30 days from the receipt of such certificate to approve payment by resolution or ordinance. If approval is not made within 30 days, there is no legal liability on the part of the subdivision or taxing district.
- B. Amounts of less than \$100 for counties, or less than \$1,000 for other political subdivisions, may be paid by the fiscal officer without such affirmation of the taxing authority upon completion of the "then and now" certificate, provided that the expenditure is otherwise lawful. This does not eliminate any otherwise applicable requirement for approval of expenditures by the taxing authority.

None of the disbursements tested during the audit period had been properly certified. We recommend the District institute the use of purchase orders for any expenditures to be made and certify expenditures prior to incurring the liability. In instances where prior certification is not practical, we recommend the issuance of a "Then and Now" certificate.

FINDING NUMBER 2001-60120-002

Ohio Administrative Code §117-2-02 requires all public offices to maintain an accounting system and accounting records sufficient to enable the public office to identify, assemble, analyze, classify, record and report its transactions, document compliance with finance-related legal contractual requirements and prepare financial statements. To comply with this section, public offices should use purchase orders to approve purchase commitments and to encumber funds against the applicable appropriations account as required by 5705.41(D). The public office should also integrate the budgetary accounts into the financial accounting system by designing an accounting system to provide ongoing and timely information on unrealized budgetary receipts and remaining uncommitted balances of appropriations.

The District did not encumber obligations and the revenue ledger and disbursement ledger did not include budgetary information. This could result in deficit spending since the District does not have a record of the uncommitted balances of appropriations. To improve controls over disbursements, we recommend the District use purchase orders to certify the availability of funds when making expenditures and to document the encumbrance of funds.

3. FINDINGS FOR FEDERAL AWARDS

None.

**AYERSVILLE WATER AND SEWER DISTRICT
DEFIANCE COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2001**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain:</i>
2000-60120-001	Ohio Revised Code § 5705.41(D), failure to properly certify funds	No.	In 2002, the District will monitor disbursements more closely and use purchase orders in order to further reduce the number of uncertified disbursements. Reissued as finding number 2001-60120-001
2000-60120-002	Ohio Administrative Code § 117-2-02, failure to encumber obligations and budgetary information not included on revenue and disbursement ledgers.	No.	In 2002, the District is scheduled to become part of the Auditor of State's Uniform Accounting Network. This computer system will allow the District to monitor its encumbrances more closely and maintain budgetary information in its revenue and disbursement ledgers. Reissued as finding number 2001-60120-002



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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
JUNE 6, 2002**