



**Auditor of State  
Betty Montgomery**



**AYERSVILLE WATER AND SEWER DISTRICT  
DEFIANCE COUNTY**

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**Auditor of State  
Betty Montgomery**

## **INDEPENDENT ACCOUNTANTS' REPORT**

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 the Ayersville Water and Sewer District, Defiance County, (the District) as of and for the year ended December 31, 2003. 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.

The District's financial transactions were processed using the Auditor of State's Uniform Accounting Network (UAN). *Government Auditing Standards* considers this service to impair the independence of the Auditor of State to conduct the audits of the District because the Auditor of State designed, developed, implemented, and, as requested, operates UAN. However, *Government Auditing Standards* permits the Auditor of State to audit and opine on this entity, because Ohio Revised Code § 117.01 requires the Auditor of State to provide UAN Services, and Ohio Revised Code §§ 117.11(B) and 115.56 mandate the Auditor of State to audit Ohio Governments.

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 District as of December 31, 2003, and its combined cash receipts and 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 December 2, 2004 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.

This report is intended solely for the information and use of the audit committee, management, the Board of Trustees, 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.



**Betty Montgomery**  
Ohio Auditor of State

December 2, 2004

**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, 2003

<b>Operating Cash Receipts:</b>	
Charges for Services	\$ 510,223
Miscellaneous	31,866
	542,089
<b>Operating Cash Disbursements:</b>	
Personal Services	75,126
Travel Transportation	41,880
Contractual Services	261,927
Supplies and Materials	43,912
Other Disbursements	2,533
	425,378
Excess of Operating Disbursements Over Operating Receipts	116,711
<b>Non-Operating Cash Receipts:</b>	
Special Assessments	138,588
Intergovernmental Revenues	39,709
Miscellaneous	4
Earnings on Investments	2,616
	180,917
<b>Non-Operating Cash Disbursements:</b>	
Debt Service	284,330
Net Cash Receipts Over Cash Disbursements	13,298
Cash Balances, January 1	184,700
<b>Cash Balances, December 31</b>	<b>\$ 197,998</b>

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, 2003**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Description of the Entity**

The 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.

**AYERSVILLE WATER AND SEWER DISTRICT  
DEFIANCE COUNTY**

NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2003  
(Continued)

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

**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 level of control, and appropriations may not exceed estimated resources. The Board must annually approve appropriation measures and subsequent amendments. Appropriations lapse at year end.

**2. Estimated Resources**

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

**3. Encumbrances**

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

A summary of 2003 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.

**AYERSVILLE WATER AND SEWER DISTRICT  
DEFIANCE COUNTY**

NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2003  
(Continued)

**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. Cash and investments include cash on hand of \$150 at December 31, 2003. The carrying amount of cash and investments at December 31 was as follows:

	2003
Demand deposits	\$ 140,498
Certificates of deposit	57,500
Total deposits	\$ 197,998

Deposits are either (1) insured by the Federal Depository Insurance Corporation or (2) collateralized by the financial institution's public entity deposit pool.

**3. BUDGETARY ACTIVITY**

Budgetary activity for the year ending December 31, 2003 follows:

Budgeted vs. Actual Receipts	
Enterprise Funds	2003
Budgeted Receipts	\$ 799,585
Actual Receipts	723,006
Variance	\$ (76,579)

Budgeted vs. Actual Budgetary Basis Expenditures	
Enterprise Funds	2003
Appropriation Authority	\$ 252,000
Budgetary Expenditures	709,708
Variance	\$ (457,708)

**AYERSVILLE WATER AND SEWER DISTRICT  
DEFIANCE COUNTY**

NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2003  
(Continued)

Contrary to Ohio law, budgetary expenditures exceeded the District's appropriation authority by \$457,708 for the year ended December 31, 2003. Also contrary to Ohio law, the District did not properly certify seventy seven percent of the disbursements. In addition, contrary to Ohio law, appropriations posted to the Districts appropriations ledger exceeded the legally adopted appropriations.

**4. DEBT**

Debt outstanding at December 31, 2003 was as follows:

	Principal	Interest Rate
USDA Rural Development Bonds	\$ 1,696,583	4.75 %
Ohio Water Development Authority Loans	872,322	2% to 7%
Total	\$ 2,568,905	

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 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.

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

	USDA Rural Development Bonds	OWDA Loans
Year ending December 31:		
2004	\$ 139,921	\$ 107,103
2005	139,946	101,209
2006	139,947	95,317
2007	139,902	95,348
2008	139,802	95,381
Subsequent	1,874,979	822,442
Total	\$ 2,574,497	\$ 1,316,800

**AYERSVILLE WATER AND SEWER DISTRICT  
DEFIANCE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2003  
(Continued)**

The District currently has an ongoing Loan with the Ohio Water Development Authority for costs relating to the design and engineering of Phase B of the District's Sanitary Sewer Project. The design or engineering cost related to this project was not completed at December 31, 2003, and therefore, this loan has not been finalized at December 31, 2003. The balance in this loan was \$144,250 at December 31, 2003. The District anticipates drawing additional funds from this loan in the future until the design and engineering cost of Phase B of the sanitary sewer is completed.

**5. RETIREMENT SYSTEMS**

The District's full-time employees belong to the Ohio Public Employees Retirement System (OPERS). OPERS 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 2003 OPERS members contributed 8.5 percent of their gross salaries. The District contributed an amount equal to 13.55 percent of participants' gross salaries through December 31, 2003. The District has paid all contributions required through December 31, 2003.

**6. RISK MANAGEMENT**

**Commercial Insurance**

The District has obtained commercial insurance for the following risks:

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

**7. SUBSEQUENT EVENTS**

The District is in the final planning stages for a Phase B sewer project, the scope and cost of which has not yet been determined.

The District was involved as a defendant in litigation regarding violations of the Ohio Sunshine Law. The District believes the resolution of such lawsuit will result in payments totaling \$18,500 to Plaintiff and miscellaneous non-monetary terms affecting the Phase B sewer project.

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**Auditor of State  
Betty Montgomery**

**INDEPENDENT ACCOUNTANTS' REPORT 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 accompanying financial statements of the Ayersville Water and Sewer District, Defiance County, (the District) as of and for the year ended December 31, 2003, and have issued our report thereon dated December 2, 2004 wherein we noted that the District's financial transactions were processed on the Auditor of State's Uniform Accounting Network (UAN). *Government Auditing Standards* considers this service to impair the independence of the Auditor of State to conduct the audit of the District because the Auditor of State designed, developed, implemented, and, as requested, operates UAN. 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 directly and materially affect 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 2003-001 through 2003-003. We also noted certain immaterial instances of noncompliance that we have reported to management of the District in a separate letter dated December 2, 2004.

### **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. However, we noted a matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the District's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. A reportable condition is described in the accompanying schedule of findings as item 2003-004.

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. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal controls over financial reporting that might be reportable conditions and, accordingly would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we do not believe the reportable condition described above is a material weakness. We noted other matters involving the internal over financial reporting that do not need inclusion in this report, that we have reported to management of the District in a separate letter dated December 2, 2004.

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



**Betty Montgomery**  
Ohio Auditor of State

December 2, 2004

**AYERSVILLE WATER AND SEWER DISTRICT  
DEFIANCE COUNTY**

SCHEDULE OF FINDINGS  
DECEMBER 31, 2003

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b>
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**FINDING NUMBER 2003-001**

**Noncompliance Citation**

Ohio Revised Code § 5705.41(D) states that no subdivision shall make any contract or order any expenditure of money unless the certificate of the fiscal officer is attached. The fiscal officer must certify that the amount required to meet such a commitment 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 encumbrance. Every contract made without such a certificate shall be void, and no warrant shall be issued in payment of any amount due thereon.

Should this requirement not be met, the section provides two exceptions which could prevent the contract from being void:

- A. Concerning contracts where the amount in question is \$1,000 or greater (\$3,000 after April 7, 2003), the fiscal officer should present to the taxing authority of the subdivision or taxing unit a certificate stating that, at both the time the contract was made and at the time of the issuance of said certificate, a sufficient sum had been appropriated and was in the treasury or in the process of being collected and that money was free from any encumbrances. Within thirty days from the receipt of the certificate, the legislative authority may authorize a warrant for the payment of the amount due.
- B. Concerning amounts less than \$1,000 (\$3,000 after April 7, 2003), the fiscal officer must issue a certificate stating the same as in the first exception. However, the fiscal officer does not need to seek the approval of the legislative authority in order to authorize the payment of the contract.

Twenty three of the thirty disbursements tested (seventy seven percent) had the purchase order written after the invoice date. This could lead to purchases being made by the District without sufficient money in the fund being charged for the purchase. We recommend that purchase orders being completed before the date of the invoice for all expenditures. When prior certification is not possible, "then and now" certificates should be utilized.

**FINDING NUMBER 2003-002**

**Noncompliance Citation**

Ohio Revised Code § 5705.40 states that appropriation measures may be amended or supplemented as long as the entity complies with the same provisions of the law as they are used in making the original appropriations. The legally adopted appropriations varied with the posted appropriations in the following funds by the following amounts:

<u>Fund</u>	<u>Approved Appropriations</u>	<u>Posted Appropriations</u>	<u>Variance</u>
Water	\$ 12,000	\$ 315,448	\$ (303,448)
Sewer	240,000	444,838	(204,838)
Security Deposit	-	9,812	(9,812)
Sewer Capital Project	-	40,928	(40,928)

Appropriations posted by the Clerk were greater than the amount approved by the Trustees. This could lead to expenditures in amounts not intended by the Board. We recommend that the Clerk only post approved appropriations to the books of the District.

**FINDING NUMBER 2003-003**

**Noncompliance Citation**

Ohio Revised Code § 5705.41(B) prohibits a subdivision from making an expenditure unless it has been properly appropriated. Expenditures exceeded appropriations in the following funds by the following amounts:

<u>Fund</u>	<u>Approved Appropriations</u>	<u>Expenditures</u>	<u>Variance</u>
Water	\$ 12,000	\$ 303,178	\$ (291,178)
Sewer	240,000	364,288	(124,288)
Security Deposit	-	2,533	(2,533)
Sewer Capital Project	-	39,709	(39,709)

Allowing expenditures to exceed appropriations may result in deficit spending, and contribute to financial instability. The District expenditures and appropriations were not monitored as to the approved amounts by the District Trustees. We recommend that expenditures and appropriations

**FINDING NUMBER 2003-003**  
**(Continued)**

be frequently reviewed by the Trustees and the necessary adjustments be made to prevent expenditures from exceeding appropriations. These adjustments should be formally approved by District Trustees in the minutes and the Clerk should only make amendments to the computerized appropriations ledger based on these formally documented approvals.

**FINDING NUMBER 2003-004**

**Reportable Condition - Amended Certificates of Estimated Resources**

Sound accounting practices provide that budgeted revenues posted to the Districts ledgers be based on amounts formally reviewed and approved by the Budget Commission. The approved amount of the Water Fund estimated resources was \$312,948 with the posted amount being \$300,948, for a variance of \$12,000. Also, the Sewer Fund approved estimated resources were \$445,709 with the posted amount being \$205,709 for a \$240,000 variance. This could have caused appropriations to exceed estimated resources, and possibly contribute to financial instability. We recommend that estimated revenue amounts posted to the District's ledgers be reconciled with the amounts officially approved on the Amended Certificates of Estimated Resources with periodic monitoring being done by the District's Trustees to assure the amounts posted are the correct amounts.

**AYERSVILLE WATER AND SEWER DISTRICT  
DEFIANCE COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS  
DECEMBER 31, 2003**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain:</i>
2002-60120-001	Ohio Revised Code § 5705.41(D), failure to properly certify funds	No	Not corrected. Reissued as finding number 2003-001.
2002-60120-002	Ohio Revised Code § 102.03, officials and employees acquired gifts	Yes	
2002-60120-003	Ohio Revised Code § 5705.40	No	Not corrected. Reissued as finding 2003-002.
2002-60120-004	Ohio Administrative Code § 117-2-02, failure to encumber obligations and budgetary information not included on revenue and disbursement ledgers.	Yes	
2002-60120-005	Budgetary Financial Statements Amendments, Ledgers did not agree with Board approved estimated resources	No	Not corrected. Reissued as finding 2003-003.



**Auditor of State  
Betty Montgomery**

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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  
DECEMBER 21, 2004**