

AYERSVILLE WATER AND SEWER DISTRICT

Defiance County, Ohio

Regular Audit

January 1, 2007 through December 31, 2007

Fiscal Year Audited Under GAGAS: 2007

BALESTRA, HARR & SCHERER, CPAS, INC.

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Mary Taylor, CPA
Auditor of State

Board of Directors
Ayersville Water and Sewer District
13961 Fruit Ridge Road
Defiance, OH 43512-6985

We have reviewed the *Independent Auditor's Report* of the Ayersville Water and Sewer District, Defiance County, prepared by Balestra, Harr & Scherer, CPAs, Inc., for the audit period January 1, 2007 to December 31, 2007. 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.

Mary Taylor

Mary Taylor, CPA
Auditor of State

July 30, 2008

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AYERSVILLE WATER AND SEWER DISTRICT

Basic Financial Statements
For the Year Ended December 31, 2007
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Member American Institute of Certified Public Accountants

Ohio Society of Certified Public Accountants

INDEPENDENT AUDITOR'S 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 business-type activities, each major fund, and the aggregate remaining fund information of the Ayersville Water and Sewer District (the District), Defiance County, as of and for the year ended December 31, 2007, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audits.

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 the 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 opinions.

As discussed in Note 1, the accompanying financial statements and notes follow the cash accounting basis. This is a comprehensive accounting basis other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash financial position of the business-type activities, each major fund, and the aggregate remaining fund information of the District as of December 31, 2007, and the respective changes in cash financial position thereof for the year then ended in conformity with the basis of accounting Note 1 describes.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 22, 2008, 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Ayersville Water and Sewer District
Defiance County
Independent Auditors' Report
Page 2

Management's discussion and analysis on pages 3 through 7 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

As described in Note 10 to the basic financial statements, the District implemented Governmental Accounting Standards Board (GASB) Statement Number 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*.



Balestra, Harr & Scherer, CPAs, Inc.

May 22, 2008

Ayersville Water and Sewer District
Management's Discussion and Analysis
For the Year Ended December 31, 2007
Unaudited

This discussion and analysis of Ayersville Water and Sewer District's (the District's) financial performance provides an overall review of the District's financial activities for the year ended December 31, 2007, 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

Key highlights for 2007 are as follows:

The District's general receipts are primarily water and sewer charges for services. These receipts each represent 44 percent of the total cash received for District activities during the year.

Using the Basic Financial Statements

This annual report is presented in a format consistent with the presentation requirements of Governmental Accounting Standards Board Statement No. 34, as applicable to the District's cash basis of accounting.

Report Components

The statement of net assets and the statement of activities provide information about the cash activities of the District as a whole.

Fund financial statements provide a greater level of detail. Funds are created and maintained on the financial records of the District as a way to segregate money whose use is restricted to a particular specified purpose. These statements present financial information by fund, presenting funds with the largest balances or most activity in separate columns.

The notes to the financial statements are an integral part of government-wide and fund financial statements and provide expanded explanation and detail regarding the information reported in the statements.

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 generally accepted accounting principles. 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 Government as a Whole

This annual report includes all activities to which the District is fiscally responsible. These activities, defined as the District's reporting entity, are operated within separate legal entities that make up the primary government. The primary government consists of the Ayersville Water and Sewer District.

The statement of net assets and the statement of activities reflect how the District did financially during 2007, within the limitations of cash basis accounting. The statement of net assets presents the cash balances of the business-type activities of the District at year end. The statement of activities compares cash disbursements with program receipts for each business-type activity. Program receipts include charges paid by the recipient of the program's goods or services. General receipts are all receipts not classified as program receipts. The comparison of cash disbursements with program receipts identifies how each business-type activity draws from the District's general receipts.

Ayersville Water and Sewer District
Management's Discussion and Analysis
For the Year Ended December 31, 2007
Unaudited

These statements report the District's cash position and the changes in cash position. Keeping in mind the limitations of the cash basis of accounting, you can think of these changes as one way to measure the District's financial health. Over time, increases or decreases in the District's cash position is one indicator of whether the District's financial health is improving or deteriorating. When evaluating the District's financial condition, you should also consider other nonfinancial factors such as the extent of the District's debt obligations the condition of the District's capital assets, the reliance on non-local financial resources for operations and the need for continued growth in the major local revenue sources such as special assessments.

In the statement of net assets and the statement of activities, the District presents only business-type activity. The District has four business-type activities, the provision of water, sewer, deposits, and sewer capital projects. Business-type activities are financed by a fee charged to the customers receiving the service.

Reporting Government'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 reported in proprietary funds. When the services are provided to the general public, the activity is reported as an enterprise fund. Ayersville Water and Sewer District has five enterprise funds, water, sewer, deposits, and two capital project funds.

Ayersville Water and Sewer District as a Whole

Table 1 provides a summary of the District's net assets for 2007 compared to 2006 on a cash basis:

	Table 1 Net Assets	
	2007	2006
Assets		
Cash and Cash Equivalents	\$ 142,873	\$ 195,914
Total Assets	142,873	195,914
Net Assets		
Unrestricted	142,873	195,914
Total Net Assets	\$ 142,873	\$ 195,914

Net assets of business-type activities decreased \$53,041 during 2007. The primary reason contributing to the decreases in cash balances is as follows:

- Paying for Phase B Sewer Project

Ayersville Water and Sewer District
Management's Discussion and Analysis
For the Year Ended December 31, 2007
Unaudited

Table 2 reflects the changes in net assets in 2007.

Table 2 Changes in Net Assets Business-Type Activities		
	2007	2006
Receipts		
Program Receipts:		
Charges for Services and Sales	\$ 639,796	\$ 682,610
Total Program Receipts	639,796	682,610
General Receipts:		
Intergovernmental Revenue	66,889	
Interest	6,340	6,948
Miscellaneous	6,191	10,780
Total General Receipts	79,420	17,728
Total Receipts	719,216	700,338
Disbursements		
Personal Services	88,647	97,469
Employee Fringe Benefits	29,374	45,045
Contractual Services	340,145	327,904
Supplies and Materials	9,735	22,038
Other	3,346	2,132
Redemption of Principal	176,291	117,682
Interest and Fiscal Charges	124,719	121,516
Total Disbursements	772,257	733,786
Increase (Decrease) in Net Assets	(53,041)	(33,448)
Net Assets, January 1	195,914	229,362
Net Assets, December 31	\$ 142,873	\$ 195,914

Program receipts represent 89 percent of total receipts and are primarily comprised of water and sewer receipts consisting of charges for services.

General receipts represent only 11 percent of the District's total receipts, and of this amount, 84 percent are intergovernmental revenue, 8 percent are miscellaneous while the other 8 percent are interest earnings. General receipts are very insignificant to the District and somewhat unpredictable revenue sources.

Disbursements for business-type activities represent the costs of running the District. These include the costs of salaries and benefits, as well as contractual services and materials and supplies. Contractual services include the cost of purchasing water and sewer services from the City of Defiance.

Ayersville Water and Sewer District
 Management's Discussion and Analysis
 For the Year Ended December 31, 2007
 Unaudited

Business-Type Activities

If you look at the Statement of Activities you will see that the first column lists the major services provided by the District. The next column identifies the costs of providing these services. The major program disbursements for business-type activities are for water and sewer operations. The next column of the Statement entitled Program Receipts identifies amounts paid by people who are directly charged for the service received by the District that must be used to provide a specific service. The net Receipt (Disbursement) column compares the program receipts to the cost of the service. These net costs are paid from the general receipts which are presented at the bottom of the Statement. A comparison between the total cost of services and the net cost is presented in Table 3.

Table 3
 Business-Type Activities

	Total Cost of Services 2007	Net Cost of Services 2007
Water Operating	\$ 337,526	\$ (18,618)
Sewer Operating	431,385	(47,851)
Enterprise Deposit Fund	3,346	897
Total Expenses	\$ 772,257	\$ (65,572)

The Government's Funds

Total District funds had receipts of \$719,216 and disbursements of \$772,257. The Water Fund's fund balance decreased \$10,079 during the year as a result of Highland Mobile Home Trailer Park closing down which resulted in the loss of 25 water customers. The fund balance of the Sewer Fund decreased \$47,603 as the result of Phase A sewer money paying for Phase B bills with no money being taken in by Phase B customers.

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.

Debt

At December 31, 2007, the District's outstanding debt included \$1,440,983 in United States Department of Agriculture rural development bonds issued for construction of the District's sanitary sewer project and \$1,174,409 in Ohio Water Development Authority (OWDA) loans for 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. For further information regarding the District's debt, refer to Note 7 to the basic financial statements.

Current Issues

The challenge for all Governments is to provide quality services to the public while staying within the restrictions imposed by limited, and in some cases shrinking, funding.

Ayersville Water and Sewer District
Management's Discussion and Analysis
For the Year Ended December 31, 2007
Unaudited

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 Hope Okuly, Clerk, Ayersville Water and Sewer District, 13961 Fruit Ridge Rd, Defiance, OH 43512.

**AYERSVILLE WATER AND SEWER DISTRICT
DEFIANCE COUNTY**

*Statement of Net Assets - Cash Basis
December 31, 2007*

	<u>Business - Type Activities</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	<u>\$ 142,873</u>
<i>Total Assets</i>	<u><u>142,873</u></u>
Net Assets	
Unrestricted	<u>142,873</u>
<i>Total Net Assets</i>	<u><u>\$ 142,873</u></u>

See accompanying notes to the financial statements.

**AYERSVILLE WATER AND SEWER DISTRICT
DEFIANCE COUNTY**

*Statement of Activities - Cash Basis
For the Year Ended December 31, 2007*

		Program Cash Receipts		Net (Disbursements) Receipts and Changes in Net Assets
	Cash Disbursements	Charges for Services and Sales	Capital Grants	Business-Type Activities
Business Type Activities				
Water	\$ 337,526	\$ 318,908	\$ -	\$ (18,618)
Sewer	431,385	316,645	66,889	(47,851)
Enterprise Deposits	3,346	4,243	-	897
Total	772,257	639,796	66,889	(65,572)
		General Receipts		
				6,340
				6,191
		<i>Total General Receipts</i>		12,531
				(53,041)
		Net Assets at Beginning of Year		195,914
		<i>Net Assets End of Year</i>		\$ 142,873

See accompanying notes to the financial statements.

**AYERSVILLE WATER AND SEWER DISTRICT
DEFIANCE COUNTY**

*Statement of Fund Net Assets - Cash Basis
Proprietary Funds
December 31, 2007*

	Business - Type Activities				Total Enterprise Funds
	Water Operating Fund	Sewer Operating Fund	Sewer Capital Projects Fund	Other Enterprise Fund	
Assets					
Equity in Pooled Cash and Cash Equivalents	\$ 89,985	\$ 30,137	\$ 16,905	\$ 5,846	\$ 142,873
<i>Total Assets</i>	<u>89,985</u>	<u>30,137</u>	<u>16,905</u>	<u>5,846</u>	<u>142,873</u>
Net Assets					
Unrestricted	\$ 89,985	\$ 30,137	\$ 16,905	\$ 5,846	\$ 142,873

See accompanying notes to the financial statements.

**AYERSVILLE WATER AND SEWER DISTRICT
DEFIANCE COUNTY**

*Statement of Cash Receipts, Disbursements and Changes in Fund Net Assets - Cash Basis
Proprietary Funds
December 31, 2007*

	Business - Type Activities				Total Enterprise Funds	
	Water Operating Fund	Sewer Operating Fund	Sewer Capital Projects Fund	Other Enterprise Fund		
Operating Receipts						
Charges for Services	\$ 318,908	\$ 192,205	\$ -	\$ 4,243	\$ 515,356	
Other Operating Receipts	4,562	1,629	-	-	6,191	
<i>Total Operating Receipts</i>	323,470	193,834	-	4,243	521,547	178,484
Operating Disbursements						
Personal Services	50,232	38,415	-	-	88,647	
Fringe Benefits	23,423	5,951	-	-	29,374	
Contractual Services	160,674	116,326	63,145	-	340,145	
Materials and Supplies	7,749	1,986	-	-	9,735	
Other	-	-	-	3,346	3,346	
<i>Total Operating Disbursements</i>	242,078	162,678	63,145	3,346	471,247	
<i>Operating Income (Loss)</i>	81,392	31,156	(63,145)	897	50,300	
Non-Operating Receipts (Disbursements)						
Interest	3,977	2,363	-	-	6,340	
Special Assessments	-	124,440	-	-	124,440	
Intergovernmental Revenue	-	-	3,744	-	3,744	
Proceed from the Sales of Loans	-	-	63,145	-	63,145	
Principal Payments	(57,649)	(118,642)	-	-	(176,291)	
Interest and Fiscal Charges	(37,799)	(86,920)	-	-	(124,719)	
<i>Total Non-Operating Receipts (Disbursements)</i>	(91,471)	(78,759)	66,889	-	(103,341)	
<i>Change in Net Assets</i>	(10,079)	(47,603)	3,744	897	(53,041)	
Net Assets Beginning of Year	100,064	77,740	13,161	4,949	195,914	
Net Assets End of Year	<u>\$ 89,985</u>	<u>\$ 30,137</u>	<u>\$ 16,905</u>	<u>\$ 5,846</u>	<u>\$ 142,873</u>	

See accompanying notes to the financial statements.

Ayersville Water and Sewer District
Defiance County, Ohio
Notes to the Financial Statements
For the Year Ended December 31, 2007

Note 1 – Reporting Entity

Ayersville Water and Sewer District, Defiance, 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 these 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. In the fund financial statements for the proprietary funds, Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, have been applied, to the extent they are applicable to the cash basis of accounting, unless those pronouncements conflict with or contradict GASB pronouncements, in which case GASB prevails. The District does not apply FASB statements issued after November 30, 1989, to its business-type activities and to its enterprise funds. Following are the more significant of Ayersville Water and Sewer District's accounting policies.

A. Basis of Presentation

The District's basic financial statements consist of a statement of net assets and a statement of activities, and fund financial statements which provide a more detailed level of financial information.

Note 2 – Summary of Significant Accounting Policies (continued)

Government-Wide Financial Statements

The statement of net assets presents the cash balance of the business-type activities of the District at year end. The statement of activities compares disbursements with program receipts for each of the District's business-type activities. Disbursements are reported by activity. An activity is a group of related activities designed to accomplish a major service or regulatory program for which the District is responsible. Program receipts include charges paid by the recipient of the program's goods or services. General receipts are all receipts not classified as program receipts, with certain limited exceptions. The comparison of direct disbursements with program receipts identifies the extent to which each business-type activity is self-financing on a cash basis or draws from the District's general receipts.

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. Nonmajor funds are aggregated and presented in a single column.

Proprietary fund statements distinguish operating transactions from nonoperating 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 nonoperating.

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.

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 sewer capital projects 1/04 funds.

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

Sewer Fund - The sewer fund accounts for the provision of sanitary sewer services to the residents and commercial users within the District.

Sewer Capital Projects Fund - This fund was established for the purpose of collecting the Phase B Capacity Charge.

Note 2 – Summary of Significant Accounting Policies (continued)

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.

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 Boards' 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.

During 2007, the District invested in nonnegotiable certificates of deposit. The nonnegotiable certificates of deposit are reported at cost.

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.

Note 2 – Summary of Significant Accounting Policies (continued)

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.

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 modified 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 another financing source nor capital outlay expenditure are reported at inception.

K. Net Assets

Net assets 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 assets are available. There are no restricted net assets.

L. Fund Balance Reserves

The District reserves any portion of fund balances which is not available for appropriation or which is legally segregated for a specific future use. Unreserved fund balance indicates that portion of fund balance which is available for appropriation in future periods. There are no reserved fund balances.

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 that Board has identified as not required for use within the current five year period of designation 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.

Ayersville Water and Sewer District
Defiance County, Ohio
Notes to the Financial Statements
For the Year Ended December 31, 2007

Note 3 – Deposits and Investments (continued)

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 held by the District can 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).

Investments in stripped principal or interest obligations, reverse repurchase agreements, and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage, and short selling are also prohibited. An investment must mature within five years from the date of purchase, unless matched to a specific obligation or debt of the District, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions.

The carrying amount of the District's deposits as of December 31, 2006 was \$142,573 and the bank balance was \$150,643. Of the bank balance:

1. \$125,000 was covered by federal depository insurance; and
2. \$25,643 was uninsured and collateralized with securities held by the pledging financial institution's trust department in the District's name.

Note 3 – Deposits and Investments (continued)

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 Authority.

At year end, the District had \$200 in undeposited 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

Ohio Public Employees Retirement System

The District participates in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans. The traditional plan is a cost-sharing, multiple-employer defined benefit pension plan. The member-directed plan is a defined contribution plan in which the member invests both member and employer contributions (employer contributions vest of five years at 20 percent per year). Under the member directed plan, members accumulate retirement assets equal to the value of the member and vested employer contributions plus any investment earnings. The combined plan is a cost-sharing, multiple-employer defined benefit pension plan that has elements of both a defined benefit and a defined contribution plan. Under the combined plan, employer contributions are invested by the retirement system to provide a formula retirement benefit similar to the traditional plan benefit. Member contributions, whose investment is self-directed by the member, accumulate retirement assets in a manner similar to the member directed plan.

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. Authority to establish and amend benefits is provided by state statute per Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report that may be obtained by writing to OPERS, 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 222-5601 or 1-800-222-7377.

For the year ended December 31, 2007, the members of all three plans were required to contribute 9.5 percent of their annual covered salaries. The employer contribution rate for pension benefits for 2007 was 7.85 percent. The Ohio Revised Code provides statutory authority for member and employer contributions.

The District's required contributions for pension obligations to the traditional and combined plans for the years ended December 31, 2007, 2006, and 2005 were \$11,810, \$13,913, and \$12,394, respectively; 100 percent has been contributed for 2007, 2006, and 2005.

Ayersville Water and Sewer District
Defiance County, Ohio
Notes to the Financial Statements
For the Year Ended December 31, 2007

Note 6 – Postemployment Benefits

Ohio Public Employees Retirement System

The Ohio Public Employees Retirement System (OPERS) provides postretirement health care coverage to age and service retirees with ten or more years of qualifying Ohio service credit with either the traditional or combined plans. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available. Members of the member-directed plan do not qualify for postretirement health care coverage. The health care coverage provided by the retirement system is considered and Other Postemployment Benefit as described in *GASB Statement No. 12*. A portion of each employer’s contribution to the traditional or combined plans is set aside for the funding of postretirement health care based on the authority granted by State statute. The 2007 local government employer contribution rate was 13.85 percent of covered payroll; 6 percent of covered payroll was the portion that was used to fund health care.

Benefits are advance-funded using the entry age normal actuarial cost method. Significant actuarial assumptions, based on OPERS’s latest actuarial review performed as of December 31, 2006, include a rate of return on investments of 6.5 percent, an annual increase in active employee total payroll of 4 percent compounded annually (assuming no change in the number of active employees) and an additional increase in the total payroll of between 0.50 percent and 6.3 percent based on additional annual pay increases. Health care premiums were assumed to increase at the projected wage inflation rate plus an additional factor ranging from 0.5 to 5 percent annual for the next eight years and 4 percent annually after eight years.

All investments are carried at market. For actuarial valuation purposes, a smoothed market approach is used. Assets are adjusted to reflect 25 percent of unrealized market appreciation or depreciation on investment assets annually.

The number of active contributing participants in the traditional and combined plans was 374,979. Actual District contributions for 2007 which were used to fund postemployment benefits were \$11,810. The actual contribution and actuarially required contribution amounts are the same. The actuarial value of OPERS’s net assets available for payment of benefits at December 31, 2006, was 12.0 billion. The actuarially accrued liability and the unfunded actuarial accrued liability were \$30.7 billion and \$18.7 billion, respectively.

The Healthcare Preservation Plan (HCPP) adopted by the OPERS Retirement Board on September 9, 2004, will become effective January 1, 2007. Member and employer contribution rates increased as of January 1, 2006, January 1, 2007 and January 1, 2008, which allowed additional funds to be allocated to the health care plan.

Note 7 - Debt

The District’s long-term debt activity for the year ended December 31, 2007, was as follows:

	Interest Rate	Balance December 31, 2006	Additions	Deletions	Balance December 31, 2007	Due Within One Year
<u>Business-type Activities</u>						
USDA Rural Development Bonds	4.75%	\$ 1,509,483	\$ -	\$ 68,500	\$ 1,440,983	\$ 71,500
Ohio Water Development Authority Loans *	2-7%	<u>1,091,529</u>	<u>63,145</u>	<u>107,791</u>	<u>1,046,883</u>	<u>53,988</u>
Total Business-type Activity		<u>\$ 2,791,683</u>	<u>\$ 63,145</u>	<u>\$ 176,291</u>	<u>\$ 2,487,866</u>	<u>\$ 125,488</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.

Ayersville Water and Sewer District
 Defiance County, Ohio
 Notes to the Financial Statements
 For the Year Ended December 31, 2007

Note 7 – Debt (continued)

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 District has pledged future water and sewer customer revenues, net of specified operating expenses, to repay \$1,727,687 in water and sewer revenue bonds issued from 1991 to 2003. Proceeds from the bonds 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 2020. Annual principal and interest payments remaining on the bonds are expected to require approximately 322 percent of net revenues. The total principal and interest remaining to be paid on the bonds is \$968,425. Principal and interest paid for the current year and total customer net revenues were \$162,198 and \$50,300, respectively.

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

Year	USDA Bonds		OWDA Loans	
	Principal	Interest	Principal	Interest
2008	71,500	\$ 68,115	53,988	41,909
2009	75,200	64,676	57,108	38,789
2010	78,700	61,064	50,142	35,466
2011	82,400	57,283	53,048	32,560
2012	86,400	53,321	56,145	29,463
2013-2017	497,300	200,272	327,814	93,157
2018-2022	549,483	68,635	89,895	8,942
Total	<u>1,440,983</u>	<u>\$ 573,366</u>	<u># 688,140</u>	<u>280,285</u>

*Two OWDA loans are still open as of December 31, 2007 and no amortization schedules have been established for these loans.

The first OWDA loan is for costs relating to the design of Phase B of the District’s Sanitary Sewer Project. The design cost related to this project was not completed at December 31, 2007, and therefore this loan has not been finalized at December 31, 2007. The balance on this loan was \$346,483 at December 31, 2007. The District anticipates drawing additional funds from this loan in the future if the design and engineering cost of Phase B of the sanitary sewer is completed.

The second OWDA loan is for costs relating to the design of Phase C of the District’s Sanitary Sewer Project. The design cost related to this project was not completed at December 31, 2007, and therefore, this loan has not been finalized at December 31, 2007. The balance in this loan was \$11,842 at December 31, 2007. The District anticipates drawing additional funds from this loan in the future if the design and engineering cost of Phase C of the sanitary sewer is completed.

Note 8 – Subsequent Event

In January 2008, the district was issued an OWDA loan for \$364,059 at a 4.95% interest rate for sewer design. This loan matures 1/1/14.

Ayersville Water and Sewer District
 Defiance County, Ohio
 Notes to the Financial Statements
 For the Year Ended December 31, 2007

Note 9 – Budgetary Activity

Budgetary activity, which is accounted for on the cash basis of accounting, is as following for the year ended December 31, 2007:

2007 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
Water Operating	\$ 338,100	\$ 327,447	\$ (10,653)
Sewer Operating	206,300	320,637	114,337
Total	\$ 544,400	\$ 648,084	\$ 103,684

2007 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
Water Operating	\$ 311,300	\$ 337,526	\$ (26,226)
Sewer Operating	186,150	368,240	(182,090)
Total	\$ 497,450	\$ 705,766	\$ (208,316)

Contrary to Ohio Revised Code 5705.41(B) the District had expenditures in excess of appropriations in the water and sewer operating funds.

Note 10 – Changes in Accounting Principles

For the fiscal year ended 2007, the District implemented Governmental Accounting Standards Board (GASB) Statement No. 48, “Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues”. GASB No. 48 addresses disclosures pertaining to future revenues that have been pledged or sold to provide financial statement users with information about which revenues will be available for other purposes and how long they will continue to be so. The implementation of this statement did not result in any prior year restatements or current year effect in the basic financial statements. For additional information please see Note 7.

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Ohio Society of Certified Public Accountants

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*

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 the business-type activities, each major fund, and the aggregate remaining fund information of the Ayersville Water and Sewer District, Defiance County, Ohio (the District), as of and for the years ended December 31, 2006 and December 31, 2007, which collectively comprise the District's basic financial statements and have issued our report thereon dated May 22, 2008, in which we indicated the District implemented Governmental Accounting Standards Board Statement No. 48, and wherein we noted the District uses a comprehensive basis of accounting other than generally accepted accounting principles. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the District's financial statements that is more than inconsequential will not be prevented or detected by District's internal control. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items 2007-001 and 2007-002 to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the District's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. We believe that the significant deficiencies described above are material weaknesses.


We noted certain matters that we reported to the Government's management in a separate letter dated May 22, 2008.

Compliance and Other Matters

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 grant agreements, 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 an instance of noncompliance or other matter that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and as item 2007-003.

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 response and, accordingly, we express no opinion on it.

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



Balestra, Harr & Scherer, CPAs, Inc.

May 22, 2008

AYERSVILLE WATER AND SEWER DISTRICT

**SCHEDULE OF FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2007**

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

FINDING NUMBER 2007-001

Bank Reconciliations – Material Weakness

Accurate monthly reconciliations of the ending bank account balance to the District's ending book balance were not performed during the audit period by the Clerk. We noted several transactions which were not posted to the UAN system, which were not caught by management's controls. This resulted in several adjustments being made to the financial statements.

Recommend that accurate reconciliations of the District's bank accounts be performed by the Clerk on a monthly basis. Any reconciling items should be documented and investigated.

Client Response

The clerk will make every effort to correct this in 2008.

FINDING NUMBER 2007-002

Recording of Transactions - Material Weakness

Several transactions were not posted to the correct line items or were not recorded in the District's financial records. Inaccurate or incomplete posting of transactions impedes the ability to prepare accurate financial information for the Board.

The accompanying financial statements have been adjusted to properly reflect correction of material misstatements.

The District should provide necessary training for the clerk to gain a better understanding of the UAN system and governmental accounting. Further, the District should implement application and monitoring controls over financial reporting to ensure that all financial statement transactions are accurately and completely reported.

Client Response

The clerk will make sure postings are in the correct line items.

FINDING NUMBER 2007-003

Non-Compliance Citation

Ohio Revised Code 5705.41(B) states that no subdivision or taxing unit is to expend money unless it has been appropriated.

Expenditures in the water and sewer funds exceeded appropriations.

District should ensure sufficient funds are available prior to purchasing goods and services.

Client Response

We are aware of this and will correct this in 2008.

**AYERSVILLE WATER AND SEWER DISTRICT
DEFIANCE COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2007**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain:
2006-001	A material weakness was issued for inaccurate bank reconciliations.	No	Reissued as Finding Number 2007-001
2006-002	A material weakness was issued for inaccurate financial reporting	No	Reissued as Finding Number 2007-001
2006-003	A noncompliance citation was issued for Ohio Revised Code 5705.36(A)(2) for appropriations exceeding available resources in the sewer fund.	Yes	



Mary Taylor, CPA
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
AUGUST 12, 2008**