



Balestra, Harr & Scherer, CPAs, Inc.

Accounting, Auditing and Consulting Services for Federal, State and Local Governments

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AYERSVILLE WATER AND SEWER DISTRICT
DEFIANCE COUNTY, OHIO

REGULAR AUDIT

For the Year Ended December 31, 2011
Fiscal Year Audited Under GAGAS: 2011



Dave Yost • Auditor of State

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

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, 2011 through December 31, 2011. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

A handwritten signature in cursive script that reads "Dave Yost".

Dave Yost
Auditor of State

January 3, 2013

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

**BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011**

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Balestra, Harr & Scherer, CPAs, Inc.

Accounting, Auditing and Consulting Services for Federal, State and Local Governments

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Independent Auditor's Report

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

We have audited the accompanying financial statements of the business-type activities and each major fund of the Ayersville Water and Sewer District, Defiance County, Ohio, (the District) as of and for the year ended December 31, 2011, 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 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 the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure 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 our audit provides a reasonable basis for our opinions.

As discussed in Note 2, 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 and each major fund of the Ayersville Water and Sewer District, Defiance County, Ohio as of December 31, 2011, and the respective changes in cash financial position thereof for the year then ended in conformity with the basis of accounting Note 2 describes.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 28, 2012 on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance, and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

We conducted our audit to opine on the District's financial statements taken as a whole. Management's Discussion & Analysis includes tables of net assets and changes in net assets. These tables provide additional information, but are not part of the basic financial statements. However, these tables are management's responsibility, and were derived from and relate directly to the underlying accounting records used to prepare the basic financial statements. These tables were subject to the auditing procedures we applied to the basic financial statements. We also applied certain additional procedures, including comparing and reconciling this information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, in accordance with auditing standards generally accepted in the United States of America. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole. Other than the aforementioned procedures applied to the tables, we applied no procedures to any other information in Management's Discussion & Analysis, and we express no opinion or any other assurance on it.

Balestra, Harr & Scherer, CPAs

Balestra, Harr & Scherer, CPAs, Inc.
September 28, 2012

Ayersville Water and Sewer District
Management's Discussion and Analysis
For the Year Ended December 31, 2011
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, 2011 within the limitations of the District's cash basis of accounting. Readers should also review the basic financial statements and notes to enhance their understanding of the District's financial performance.

HIGHLIGHTS

The District's net cash assets increased by \$292,000 (1.3%) in 2011.

The District's operating cash receipts increased by \$143,727 (15.6%) in 2011. Operating cash disbursements increased by \$78,883 (17.2%) in 2011. Non-operating cash receipts decreased by \$5,343,763 in 2011. Non-operating cash disbursements decreased by \$5,567,304 in 2011.

OVERVIEW OF BASIC FINANCIAL STATEMENTS

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

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

Basis of Accounting

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

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

Reporting 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 three enterprise funds used for reporting purposes which are the water, sewer, and deposits funds.

Ayersville Water and Sewer District
Management's Discussion and Analysis
For the Year Ended December 31, 2011
Unaudited

AYERSVILLE WATER AND SEWER DISTRICT AS A WHOLE

Table 1 on the following page provides a summary of the District's net assets for 2011 compared to 2010 on a cash basis. Net assets of the District increased \$292,000 during 2011, due to the reasons explained in the explanations for changes after Table 2.

| | <u>2011</u> | <u>2010</u> | <u>Change Amount</u> |
|---------------------------|--------------------------|--------------------------|--------------------------|
| Assets | | | |
| Cash and Cash Equivalents | \$ 517,787 | \$ 225,787 | \$ 292,000 |
| Total Assets | <u>\$ 517,787</u> | <u>\$ 225,787</u> | <u>\$ 292,000</u> |
| Net Assets | | | |
| Unrestricted | \$ 517,787 | \$ 225,787 | \$ 292,000 |
| Total Net Assets | <u>\$ 517,787</u> | <u>\$ 225,787</u> | <u>\$ 292,000</u> |

Table 2 reflects the changes in net assets in 2011 and 2010.

Table 2
Changes in Net Assets

| | Enterprise Funds | | |
|-----------------------------------|-------------------|-------------------|--------------------|
| | <u>2011</u> | <u>2010</u> | <u>Changes</u> |
| Receipts | | | |
| Operating Receipts: | | | |
| Charges for Services | \$ 1,052,980 | \$ 887,111 | \$ 165,869 |
| Miscellaneous | 10,381 | 32,523 | (22,142) |
| Total Operating Receipts | <u>1,063,361</u> | <u>919,634</u> | <u>143,727</u> |
| Non-Operating Receipts: | | | |
| Intergovernmental Receipts | 1,163,666 | 3,517,776 | (2,354,110) |
| Special Assessments | 126,220 | 118,570 | 7,650 |
| Proceeds from OWDA Loans | 200,440 | 3,197,724 | (2,997,284) |
| Interest | 114 | 133 | (19) |
| Total Non-Operating Receipts | <u>1,490,440</u> | <u>6,834,203</u> | <u>(5,343,763)</u> |
| Total Receipts | <u>2,553,801</u> | <u>7,753,837</u> | <u>(5,200,036)</u> |
| Disbursements | | | |
| Operating Disbursements: | | | |
| Personal Services | 112,856 | 115,332 | (2,476) |
| Fringe Benefits | 55,664 | 47,863 | 7,801 |
| Contractual Services | 336,440 | 283,556 | 52,884 |
| Materials and Supplies | 32,881 | 12,155 | 20,726 |
| Other | 391 | 443 | (52) |
| Total Operating Disbursements | <u>538,232</u> | <u>459,349</u> | <u>78,883</u> |
| Non-Operating Disbursements: | | | |
| Capital Outlay | 708,372 | 4,249,690 | (3,541,318) |
| Principal Payments | 926,265 | 2,945,163 | (2,018,898) |
| Interest and Fiscal Charges | 88,932 | 96,020 | (7,088) |
| Total Non-Operating Disbursements | <u>1,723,569</u> | <u>7,290,873</u> | <u>(5,567,304)</u> |
| Total Disbursements | <u>2,261,801</u> | <u>7,750,222</u> | <u>(5,488,421)</u> |
| Change in Net Assets | 292,000 | 3,615 | 288,385 |
| Net Assets, January 1 | 225,787 | 222,172 | 3,615 |
| Net Assets, December 31 | <u>\$ 517,787</u> | <u>\$ 225,787</u> | <u>\$ 292,000</u> |

Ayersville Water and Sewer District
Management's Discussion and Analysis
For the Year Ended December 31, 2011
Unaudited

For 2011, operating cash receipts increased primarily due to the additional customers due to the completion of Phase B of the sewer project as well as due to a rate increase in the water fund. Operating cash disbursements increased \$78,883 from the prior year. There were increases of contractual services in the Sewer Fund of almost \$75,000 for costs for wastewater treatment services paid to the City of Defiance for additional customers related to the Phase B sewer project. There was also increase in materials and supplies in the Water Fund. Non-operating cash receipts decreased due to less OWDA loans and federal grants as the Phase B sewer project nears completion. Non-operating cash disbursements decreased due to less capital outlay and no one-time OWDA loan repayment due to grants as 2010 had as the Phase B sewer project nears completion.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The District does not currently keep track of its capital assets and infrastructure in the accompanying financial statements, but records payments for capital assets as disbursements. Capital outlay was \$708,372 in 2011.

Debt

At December 31, 2011, the District's outstanding debt included \$1,143,900 in United States Department of Agriculture rural development bonds issued for construction of the District's sanitary sewer project, \$193,683 in Ohio Water Development Authority (OWDA) loans for sewer related projects and \$474,233 in Ohio Water Development Authority (OWDA) loans for water related projects. For further information regarding the District's debt, refer to Note 7 to the basic financial statements.

CURRENT ISSUES

The 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.

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 Fund Net Assets - Cash Basis
Proprietary Funds
As of December 31, 2011*

| | Enterprise Funds | | | Total |
|--|-------------------|-------------------|------------------|---------------------|
| | Water Fund | Sewer Fund | Deposits Fund | Enterprise Funds |
| Assets | | | | |
| Equity in Pooled Cash and Cash Equivalents | \$ 207,299 | \$ 298,739 | \$ 11,749 | \$ 517,787 |
| <i>Total Assets</i> | <u>207,299</u> | <u>298,739</u> | <u>11,749</u> | <u>517,787</u> |
| Net Assets | | | | |
| Unrestricted | <u>\$ 207,299</u> | <u>\$ 298,739</u> | <u>\$ 11,749</u> | <u>\$ 517,787</u> |

See accompanying notes to the basic financial statements.

**AYERSVILLE WATER AND SEWER DISTRICT
DEFIANCE COUNTY**

*Statement of Cash Receipts, Disbursements and Changes in Fund Net Assets - Cash Basis
Proprietary Funds
For the Year Ended December 31, 2011*

| | Enterprise Funds | | | Total Enterprise Funds |
|--|-------------------|-------------------|------------------|------------------------------|
| | Water Fund | Sewer Fund | Deposits Fund | |
| Operating Receipts | | | | |
| Charges for Services | \$ 502,580 | \$ 550,400 | \$ - | \$ 1,052,980 |
| Other Operating Receipts | 1,980 | 6,901 | 1,500 | 10,381 |
| <i>Total Operating Receipts</i> | 504,560 | 557,301 | 1,500 | 1,063,361 |
| Operating Disbursements | | | | |
| Personal Services | 15,822 | 97,034 | - | 112,856 |
| Fringe Benefits | 29,954 | 25,710 | - | 55,664 |
| Contractual Services | 149,862 | 186,578 | - | 336,440 |
| Materials and Supplies | 28,672 | 4,209 | - | 32,881 |
| Other | - | - | 391 | 391 |
| <i>Total Operating Disbursements</i> | 224,310 | 313,531 | 391 | 538,232 |
| <i>Operating Receipts Over/(Under) Operating Disbursements</i> | 280,250 | 243,770 | 1,109 | 525,129 |
| Non-Operating Receipts (Disbursements) | | | | |
| Interest | 57 | 57 | - | 114 |
| Special Assessments | - | 126,220 | - | 126,220 |
| Intergovernmental Receipts | - | 1,163,666 | - | 1,163,666 |
| Proceeds from OWDA Loans | - | 200,440 | - | 200,440 |
| Capital Outlay | (99,870) | (608,502) | - | (708,372) |
| Principal Payments | (53,048) | (873,217) | - | (926,265) |
| Interest and Fiscal Charges | (32,158) | (56,774) | - | (88,932) |
| <i>Total Non-Operating Receipts (Disbursements)</i> | (185,019) | (48,110) | - | (233,129) |
| <i>Change in Net Assets</i> | 95,231 | 195,660 | 1,109 | 292,000 |
| Net Assets Beginning of Year | 112,068 | 103,079 | 10,640 | 225,787 |
| Net Assets End of Year | <u>\$ 207,299</u> | <u>\$ 298,739</u> | <u>\$ 11,749</u> | <u>\$ 517,787</u> |

See accompanying notes to the basic financial statements.

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 fund net assets and a statement of cash receipts, disbursements, and changes in fund net assets.

Note 2 – Summary of Significant Accounting Policies (continued)

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 non-operating.

B. Fund Accounting

The District uses fund accounting to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. Funds are used to segregate resources that are restricted as to use. The District classifies its funds into the Enterprise Fund type.

Proprietary Funds

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

Enterprise Funds - Enterprise funds may be used to account for any activity for which a fee is charged to external users for goods or services. The District's major enterprise funds are the water, sewer, and the deposit 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. The District maintains several funds within their records to account for various activities for sewer purposes. Such funds have been combined for reporting purposes.

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

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.

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 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.

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.

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 may be deposited or invested in the following securities:

1. United States treasury notes, bills, bonds, or other obligations of or securities issued by the United States treasury or any other obligation guaranteed as to the payment of principal and interest by the United States;
2. Bonds, notes, debentures, or other obligations of or securities 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 that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. Interim deposits in the eligible institutions applying for interim money as provided in section 135.08 of the Revised Code;
6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
7. The State Treasurer's investment pool (STAR Ohio);
8. Certain bankers' acceptances for a period not to exceed one hundred eighty days and commercial paper notes for a period not to exceed one hundred eighty days in an amount not to exceed twenty-five percent of the interim moneys available for investment at any one time;
9. Linked deposits as authorized by ordinance adopted pursuant to section 135.80 of the Revised Code;
10. Commercial paper notes issued by any entity that is defined in division (D) of section 1705.01 of the Revised Code and has assets exceeding five hundred million dollars, and to which notes are rated at the time of purchase in the highest classification established by at least two standard rating services; the aggregate value of the notes does not exceed ten percent of the aggregate value of the outstanding commercial paper of the issuing corporation; the notes mature no later than one hundred eighty days after purchase; and
11. Bankers' acceptances of banks that are members of the federal deposit insurance corporation to which both the obligations are eligible for purchase by the federal reserve system and the obligations mature no later than one hundred eighty days after purchase.

Note 3 – Deposits and Investments (continued)

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

The carrying amounts of the District’s deposits as of December 31, 2011 was \$517,587. The bank balances of the District’s deposits as of December 31, 2011 was \$527. All of the District’s deposits were either covered by FDIC balances or collateral pools in the manner designated in the following paragraph.

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

As of December 31, 2011, 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

- A. The Ohio Public Employees Retirement System (OPERS) administers three separate pension plans as described below:
- 1) The Traditional Pension Plan (TP) – a cost-sharing multiple-employer defined benefit pension plan.
 - 2) The Member-Directed Plan (MD) – a defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20% per year). Under the Member-Directed Plan members accumulate retirement assets equal to the value of member and (vested) employer contributions plus any investment earnings.
 - 3) The Combined Plan (CO) – a cost-sharing multiple-employer defined benefit pension plan. Under the Combined Plan, OPERS invests employer contributions to provide a formula retirement benefit similar in nature to the Traditional Pension Plan benefit. Member contributions, the investment of which is self-directed by the members, accumulate retirement assets in a manner similar to the Member-Directed Plan.
- B. OPERS provides retirement, disability, survivor and death benefits and annual cost-of-living adjustments to members of the Traditional Pension and Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits.

Note 5 – Defined Benefit Pension Plans (continued)

- C. Authority to establish and amend benefits is provided in Chapter 145 of the Ohio Revised Code.
- D. OPERS issues a stand-alone financial report. Interested parties may obtain a copy by writing to OPERS, Attention: Finance Director, 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 222-5601 or 1-800-222-7377.
- E. The Ohio Revised Code provides statutory authority for member and employer contributions. For 2011, 2010, and 2009, member and employer contribution rates were consistent across all three plans.

The member contribution rates were 10.0% for 2011, 2010 and 2009 for the District.

The employer contribution rates were 14.0% for 2011, 2010 and 2009 of covered payroll for the District.

The District's required contributions for pension obligations to the traditional and combined plans for the years ended December 31, 2011, 2010, and 2009 were \$23,298, \$23,884, and \$13,013, respectively; 100 percent has been contributed for 2011, 2010, and 2009

Note 6 – Postemployment Benefits

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

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

In order to qualify for post-employment health care coverage, age and service retirees under the Traditional Pension and Combined Plans must have 10 or more years of qualifying Ohio service credit. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available. The health care coverage provided by OPERS meets the definition of an Other Post-Employment Benefit (OPEB) as described in GASB Statement No. 45.

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

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

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

Employer contribution rates are expressed as a percentage of the covered payroll of active members. In 2011, 2010 and 2009, the District contributed at 14% of covered payroll. The Ohio Revised Code currently limits the employer contribution rate not to exceed 14% of covered payroll. Active members do not make contributions to the OPEB Plan.

Ayersville Water and Sewer District
Defiance County, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2011

Note 6 – Postemployment Benefits (continued)

OPERS' Post Employment Healthcare plan was established under, and is administered in accordance with, Internal Revenue Code 401(h). Each year, the OPERS Retirement Board determines the portion of the employer contribution rate that will be set aside for funding of post employment healthcare benefits.

For 2011, the employer contribution allocated to the health care plan for members in the Traditional Plan was 4% and 6.05% for the Combined Plan. For 2010, the employer contribution allocated to the health care plan for members in the Traditional Plan was 5.5% from January through February and 5.0% from March through December. The employer contribution allocated to the health care plan for members in the Combined Plan was 4.73% from January through February and 4.23% from March through December. For 2009, the employer contribution allocated to the health care plan was 7.0% from January through March and 5.5% from April through December. The OPERS Retirement Board is also authorized to establish rules for the payment of a portion of the healthcare benefits provided, by the retiree or their surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected.

- C. The employer contributions that were used to fund post-employment benefits were \$14,604 for 2011, \$14,460 for 2010 and \$19,543 for 2009.
- D. The Health Care Preservation Plan (HCPP) adopted by the OPERS Retirement Board on September 9, 2004, was effective January 1, 2007. Member and employer contribution rates increased on January 1 of each year from 2006 to 2008. These rate increases 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, 2011, was as follows:

| | Interest Rate | Original Issue Amount | Balance December 31, 2010 | Additions | Deletions | Balance December 31, 2011 | Due Within One Year |
|-------------------------------|---------------|-----------------------|---------------------------|-------------------|-------------------|---------------------------|---------------------|
| <u>Sewer Fund:</u> | | | | | | | |
| USDA Rural Development Bonds | 4.75% | | \$ 1,226,300 | \$ - | \$ 82,400 | \$ 1,143,900 | \$ 86,400 |
| OWDA Loan # 5204 | 3.20% | 395,104 | 784,060 | 6,757 | 790,817 | - | - |
| OWDA Loan # 5864 | | | - | 193,683 | - | 193,683 | - |
| Total Sewer Fund | | | \$ 2,010,360 | \$ 200,440 | \$ 873,217 | \$ 1,337,583 | \$ 86,400 |
| <u>Water Fund</u> | | | | | | | |
| OWDA Loan # 1470 | 7.50% | 129,634 | \$ 61,594 | \$ - | \$ 7,010 | \$ 54,584 | \$ 7,536 |
| OWDA Loan # 1473 | 7.03% | 587,190 | 315,036 | - | 28,377 | 286,659 | 30,371 |
| OWDA Loan # 2610 | 2.00% | 204,066 | 75,337 | - | 10,973 | 64,364 | 11,193 |
| OWDA Loan # 2611 | 2.00% | 25,815 | 9,734 | - | 1,417 | 8,317 | 1,445 |
| OWDA Loan # 3042 | 6.24% | 117,012 | 65,581 | - | 5,271 | 60,310 | 5,600 |
| Total Water Fund | | | \$ 527,282 | \$ - | \$ 53,048 | \$ 474,234 | \$ 56,145 |
| Total Enterprise Funds | | | \$ 2,537,642 | \$ 200,440 | \$ 926,265 | \$ 1,811,817 | \$ 142,545 |

Ayersville Water and Sewer District
 Defiance County, Ohio
 Notes to the Basic Financial Statements
 For the Year Ended December 31, 2011

Note 7 – Debt (continued)

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

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

The District has pledged future water and sewer customer revenues, net of specified operating expenses, to repay \$1,849,631 in water and sewer revenue bonds issued from 1991 to 2003 that are still outstanding. 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 16.5 percent of net revenues. The total principal and interest remaining to be paid on the bonds is \$605,795.

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

| Year | USDA Bonds | | OWDA Loans | |
|-----------|---------------------|-------------------|---------------------|-------------------|
| | Principal | Interest | Principal | Interest |
| 2012 | \$ 86,400 | \$ 53,321 | \$ 56,145 | \$ 29,463 |
| 2013 | 90,400 | 49,170 | 59,447 | 26,160 |
| 2014 | 94,800 | 44,826 | 62,969 | 22,639 |
| 2015 | 99,200 | 40,271 | 66,726 | 18,882 |
| 2016 | 104,000 | 35,502 | 70,733 | 14,875 |
| 2017-2021 | 600,700 | 97,516 | 158,214 | 19,542 |
| 2022 | 68,400 | 1,625 | - | - |
| Total | <u>\$ 1,143,900</u> | <u>\$ 322,231</u> | <u># \$ 474,234</u> | <u>\$ 131,561</u> |

* OWDA loan #5864 is still open as of December 31, 2011 and no amortization schedules have been established for this loan.

The OWDA loan 5204 is for costs relating to the design of the District’s Sanitary Sewer Project. The design costs related to this project were completed at December 31, 2011. The balance on this loan was \$790,817 and the District repaid OWDA for this balance as of December 31, 2011.

The OWDA loan #5864 is for costs relating to the design of the District’s Sanitary Sewer Project. The design cost related to this project was not completed at December 31, 2011, and therefore this loan has not been finalized at December 31, 2011. The balance on this loan was \$193,683 at December 31, 2011. The District anticipates drawing additional funds from this loan in the future.

Ayersville Water and Sewer District
 Defiance County, Ohio
 Notes to the Basic Financial Statements
 For the Year Ended December 31, 2011

Note 8 – Budgetary Activity

Budgetary activity, which is accounted for on the cash basis of accounting, is as following for the years ended December 31, 2011:

| 2011 Budgeted vs. Actual Receipts | | | |
|--|----------------------|--------------------|-----------|
| Fund Type | Budgeted Receipts | Actual Receipts | Variance |
| Water Operating | \$462,700 | \$504,617 | \$41,917 |
| Sewer Operating | 1,848,136 | 2,047,684 | 199,548 |
| Deposits Fund | 0 | 1,500 | 1,500 |
| Total | \$2,310,836 | \$2,553,801 | \$242,965 |

| 2011 Budgeted vs. Actual Budgetary Basis Expenditures | | | |
|--|----------------------------|---------------------------|-------------|
| Fund Type | Appropriation Authority | Budgetary Expenditures | Variance |
| Water Operating | \$461,288 | \$409,386 | \$51,902 |
| Sewer Operating | 1,671,286 | 1,852,024 | (180,738) |
| Deposits Fund | 0 | 391 | (391) |
| Total | \$2,132,574 | \$2,261,801 | \$(129,227) |

Contrary to Ohio Revised Code 5705.41(B) the District had expenditures in excess of appropriations in the sewer operating fund for 2011.

Note 9 – Contingencies

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



Balestra, Harr & Scherer, CPAs, Inc.

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Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by *Government Auditing Standards*

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

We have audited the financial statements of the business-type activities and each major fund of the Ayersville Water and Sewer District, Defiance County, Ohio (the District), as of and for the year ended December 31, 2011, which collectively comprise the District's basic financial statements and have issued our report thereon dated September 28, 2012, wherein we noted the District follows a comprehensive accounting basis other than accounting principles generally accepted in the United States of America. 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 the Comptroller General of the United States' *Government Auditing Standards*.

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 audit procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of opining on the effectiveness of the District's internal controls over financial reporting. Accordingly, we have not opined 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 was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. However, as described in the accompanying schedule of findings we identified a certain deficiency in internal control over financial reporting, that we consider a material weakness.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and timely corrected. We consider finding 2011-001 described in the accompanying schedule of findings to be a material weakness.

Compliance and Other Matters

As part of reasonably assuring whether the District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed an instances of noncompliance or other matters we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings as item 2011-001 and 2011-002.

We did note certain matters not requiring inclusion in this report that we reported to the District's management in a separate letter dated September 28, 2012.

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

We intend this report solely for the information and use of management, the Board of Trustees and others within the District. We intend it for no one other than these specified parties.

Balestra, Harr & Scherer, CPAs

Balestra, Harr & Scherer, CPAs, Inc.
September 28, 2012

**Ayersville Water and Sewer District
Defiance County, Ohio**

**SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEARS ENDED DECEMBER 31, 2011**

FINDING NUMBER 2011-001

Material Weakness/Material Non-Compliance/Questioned Costs – *Controls over Financial Accounting*

Ohio Revised Code Section 733.28 provides that the District bookkeeper shall keep the books of the District, exhibit accurate statements of all monies received and expended, and maintain records of all property owned by the District and income derived. In addition, Ohio Administrative Code Section 117-2-02(A) states that all public offices are required to identify, assemble, analyze, classify, record and report its transactions, maintain accountability for the related assets and liabilities, document compliance with finance related legal and contractual requirements, and prepare financial statements required by rule 117-2-03 of the administrative code.

Supporting documentation/invoices could not be located for the following checks during the audit until requested by the audit team:

Check #13569, Paid to McCarthy's on 5/19/2011 in the amount of \$2,888.00;
Check #13570, Paid to Spartan Tool on 5/19/2011 in the amount of \$6,915.00
Check #13719, Paid to Snyder Pontiac on 9/15/2011 in the amount of \$255.79;
Check #13784, Paid to Craun Liebring on 11/15/2011 in the amount of \$1662.24.

The client was unable to obtain supporting documentation for the following check, which results in a questioned cost for the audit period:

Check #13572, Paid to Lowe's on 5/19/2011 in the amount of \$388.34;

Failure to provide accurate and complete financial information limits management's resources for decision making and can provide a false perception of the District's financial position.

We recommend the District ensure that proper documentation is maintained for all expenditures and that all expenditures are for an allowable purpose. The District should implement procedures to ensure that accounting records of the District are accurate and complete.

Client Response:

During the audit period the District had numerous ongoing issues which took extensive time to resolve. There were some invoices which had been inadvertently misplaced.

FINDING NUMBER 2011-002

Material Non-Compliance

Ohio Revised Code Section 5705.41(B) states that the District is not to expend money unless it has been appropriated. We noted that the District's Sewer Fund had expenditures in excess of appropriations by \$180,738.

The District should revise appropriations, by the same means in which they were originally created, as necessary throughout the audit period.

Client Response:

During the audit period the District had numerous ongoing issues which took extensive time to resolve. There were some cases where the District overspent the appropriations. We are working diligently to correct this matter for 2012 and will focus more attention on this area in the future.

**AYERSVILLE WATER AND SEWER DISTRICT
DEFIANCE COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEARS ENDED DECEMBER 31, 2011**

| Finding Number | Finding Summary | Fully Corrected? | Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain: |
|-----------------------|--|-------------------------|--|
| 2010-001 | Material Non-Compliance – ORC 5705.41(B) | No | Reissued as Finding 2011-002 |
| 2010-002 | Significant Deficiency/Non-Compliance Citation | Yes | Finding no longer valid; Single Audit not applicable in 2011. |

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Dave Yost • Auditor of State

AYERSVILLE WATER AND SEWER DISTRICT

DEFIANCE COUNTY

CLERK'S CERTIFICATION

This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
JANUARY 15, 2013**