



Dave Yost • Auditor of State

**TROY TOWNSHIP WASTEWATER DISTRICT
ASHLAND COUNTY**

TABLE OF CONTENTS

TITLE	PAGE
Independent Auditor's Report	1
Statement of Cash Receipts, Cash Disbursements, and Changes in Fund Cash Balances For the Years Ended December 31, 2012 and 2011	3
Notes to the Financial Statements	5
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by <i>Government Auditing Standards</i>	11
Schedule of Findings	13
Schedule of Prior Audit Findings	15

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Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT

Troy Township Wastewater District
Ashland County
P.O. Box 55
Nova, Ohio 44859

To the Board of Trustees:

Report on the Financial Statements

We have audited the accompanying financial statements and related notes of Troy Township Wastewater District, Ashland County, Ohio, (the District) as of and for the years ended December 31, 2012 and 2011.

Management's Responsibility for the Financial Statements

Management is responsible for preparing and fairly presenting these financial statements in accordance with the financial reporting provisions of Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03; this responsibility includes designing, implementing and maintaining internal control relevant to preparing and fairly presenting financial statements free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to opine on these financial statements based on our audit. We audited in accordance with auditing standards generally accepted in the United States of America and the financial audit standards in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require us to plan and perform the audit to reasonably assure the financial statements are free from material misstatement.

An audit requires obtaining evidence about financial statement amounts and disclosures. The procedures selected depend on our judgment, including assessing the risks of material financial statement misstatement, whether due to fraud or error. In assessing those risks, we consider internal control relevant to the District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not to the extent needed to opine on the effectiveness of the District's internal control. Accordingly, we express no opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of the overall financial statement presentation.

We believe the audit evidence we obtained is sufficient and appropriate to support our audit opinion.

Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles

As described in Note 1 of the financial statements, the District prepared these financial statements using the accounting basis permitted by the financial reporting provisions of Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03, which is an accounting basis other than accounting principles generally accepted in the United States of America, to satisfy requirements.

The effects on the financial statements of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the *Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles* paragraph, the financial statements referred to above do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the District as of December 31, 2012 and 2011, or changes in financial position thereof for the years then ended.

Opinion on Regulatory Basis of Accounting

In our opinion, the financial statements referred to above present fairly, in all material respects, the combined cash balances of Troy Township Wastewater District, Ashland County, Ohio, as of December 31, 2012 and 2011, and its cash receipts and disbursements for the years then ended in accordance with the financial reporting provisions Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03 permits, described in Note 1.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated August 2, 2013, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.



Dave Yost
Auditor of State

Columbus, Ohio

August 2, 2013

**TROY TOWNSHIP WASTEWATER DISTRICT
ASHLAND COUNTY**

**STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011**

	<u>2012</u>	<u>2011</u>
Operating Cash Receipts:		
Charges for Services	\$67,489	\$72,894
Miscellaneous	2,011	506
	<hr/>	<hr/>
Total Operating Cash Receipts	69,500	73,400
	<hr/>	<hr/>
Operating Cash Disbursements:		
Personal Services	11,801	11,669
Utilities	2,777	2,786
Repairs and Maintenance	3,670	1,555
Testing and Licenses	350	
Other Contractual Services	16,811	22,986
Office Supplies and Materials	1,706	1,731
Insurance	2,998	2,597
	<hr/>	<hr/>
Total Operating Cash Disbursements	40,113	43,324
	<hr/>	<hr/>
Operating Income	29,387	30,076
	<hr/>	<hr/>
Non-Operating Cash Receipts (Disbursements):		
Intergovernmental		55,641
Interest	2,609	469
Refunds/Reimbursements	20	
Debt Service	(42,097)	(42,043)
	<hr/>	<hr/>
Total Non-Operating Cash Receipts (Disbursements)	(39,468)	14,067
	<hr/>	<hr/>
Net Cash Receipts Over/(Under) Cash Disbursements	(10,081)	44,143
	<hr/>	<hr/>
Fund Cash Balances, January 1	264,033	219,890
	<hr/>	<hr/>
Fund Cash Balances, December 31	<u><u>\$253,952</u></u>	<u><u>\$264,033</u></u>

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

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**TROY TOWNSHIP WASTEWATER DISTRICT
ASHLAND COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of the Entity

The constitution and laws of the State of Ohio establish the rights and privileges for the Troy Township Wastewater District, Ashland County, Ohio, (the District) as a body corporate and politic. The District was created in November 2001 by the Ashland Court of Common Pleas in accordance with the provisions of Chapter 6119 of the Ohio Revised Code. The District is directed by a five-member Board of Trustees. Board members are appointed by the Troy Township Trustees. The District began charging a user fee in March 2002 to be used toward the local share of connection fees to the sanitary sewer system that was constructed. The District provides sewer services to residents of the District.

The District participates in the Ohio Plan Risk Management public entity risk pool. Note 7 to the financial statements provide additional information for this entity.

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

B. Accounting Basis

These financial statements follow the accounting basis the Auditor of State prescribes or permits. This basis is similar to the cash receipts and disbursements accounting basis. The District recognizes receipts when received in cash rather than when earned, and recognizes disbursements when paid rather than when a liability is incurred.

These statements include adequate disclosure of material matters, as the Auditor of State prescribes or permits.

C. Deposits and Investments

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

The investment in STAR Ohio is recorded at the share value the State Treasurer reports.

D. Budgetary Process

The Ohio Revised Code requires the Board to budget annually.

1. Appropriations

Budgetary expenditures (that is, disbursements and encumbrances) may not exceed appropriations at the object level of control, and appropriations may not exceed estimated resources. Appropriation Authority includes current year appropriations plus encumbrances carried over from the prior year (if any). The Board must annually approve appropriation measures and subsequent amendments.

**TROY TOWNSHIP WASTEWATER DISTRICT
ASHLAND COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Budgetary Process (Continued)

2. Estimated Resources

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

3. Encumbrances

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

A summary of 2012 and 2011 budgetary activity appears in Note 3.

E. Property, Plant, and Equipment

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

2. EQUITY IN POOLED DEPOSITS AND INVESTMENTS

The District may invest in certificates of deposits, notes, bonds, or other obligations of the United States, or any agency or instrumentality thereof, or in obligations of the State or any political subdivision thereof.

The carrying amount of deposits and investments at December 31 was as follows:

	2012	2011
Demand deposits	\$64,102	\$52,050
Certificates of deposit	175,300	173,467
Total deposits	239,402	225,517
 STAR Ohio	 14,550	 38,516
Total deposits and investments	\$253,952	\$264,033

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

Investments: Investments in STAR Ohio are evidenced by securities that exist in physical form.

**TROY TOWNSHIP WASTEWATER DISTRICT
ASHLAND COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011
(Continued)**

3. BUDGETARY ACTIVITY

Budgetary activity for the years ended December 31, 2012 and 2011 follows:

2012 Budgeted vs. Actual Receipts		
Budgeted Receipts	Actual Receipts	Variance
\$135,000	\$72,129	(\$62,871)

2012 Budgeted vs. Actual Budgetary Basis Expenditures		
Appropriation Authority	Budgetary Expenditures	Variance
\$92,177	\$82,210	\$9,967

2011 Budgeted vs. Actual Receipts		
Budgeted Receipts	Actual Receipts	Variance
\$85,000	\$129,510	\$44,510

2011 Budgeted vs. Actual Budgetary Basis Expenditures		
Appropriation Authority	Budgetary Expenditures	Variance
\$87,966	\$85,367	\$2,599

Contrary to Ohio Rev. Code Section 5705.41(D), the District did not certify the availability of funds for all expenditures during 2012 and 2011.

4. DEBT

Debt outstanding at December 31, 2012 was as follows:

	Principal	Interest Rate
Water Resource Revenue Bond	\$764,200	4.375%

The District was approved by the United States Department of Agriculture (USDA) for a loan on May 24, 2004 in the principal amount of \$788,000 for the construction of Wastewater treatment facilities. On January 21, 2009, the District issued \$788,000 of Water Resource Revenue Bonds, Series 2009 to pay off the USDA loan. The Revenue Bonds will be repaid in annual installments, with an interest rate of 4.375% through January 2049. Future revenues from the District's sewer operation collateralize this bond.

**TROY TOWNSHIP WASTEWATER DISTRICT
ASHLAND COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011
(Continued)**

4. DEBT (Continued)

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

Year ending December 31:	Sewer Revenue Bonds
2013	\$42,034
2014	42,058
2015	42,064
2016	42,053
2017	42,024
2018-2022	210,396
2023-2027	210,271
2028-2032	210,324
2033-2037	210,262
2038-2042	210,306
2043-2047	210,319
2048-2049	84,115
Total	<u>\$1,556,226</u>

5. DEBT SERVICE TRUST FUNDS

The District's Revenue bonds require the District to establish a Sewer Debt Service Fund and a Sewer Reserve Fund. These funds are to receive one twelfth and one fifth, respectively, of the monthly receipts. The balances of these funds as of December 31, 2012 are \$23,788 and \$42,096, respectively. For financial reporting purposes, these reserve funds are combined with the District's operating fund.

6. RETIREMENT SYSTEM

The District's full-time employees belong to the Ohio Public Employees Retirement System (OPERS). OPERS is a cost-sharing, multiple-employer plan. The Ohio Revised Code prescribes the Plan's retirement benefits, including postretirement healthcare and survivor and disability benefits to participants.

The Ohio Revised Code also prescribes contribution rates. For 2012 and 2011, OPERS members contributed 10% of their gross salaries and the District contributed an amount equaling 14% of participants' gross salaries. The District has paid all contributions required through December 31, 2012.

7. RISK MANAGEMENT

The District belongs to the Ohio Plan Risk Management, Inc. (OPRM) - formerly known as the Ohio Government Risk Management Plan, (the "Plan"), a non-assessable, unincorporated non-profit association providing a formalized, jointly administered self-insurance risk management program and other administrative services to Ohio governments ("Members"). The Plan is legally separate from its member governments.

**TROY TOWNSHIP WASTEWATER DISTRICT
ASHLAND COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011
(Continued)**

7. RISK MANAGEMENT (Continued)

Pursuant to Section 2744.081 of the Ohio Revised Code, the plan provides property, liability, errors and omissions, law enforcement, automobile, excess liability, crime, surety and bond, inland marine and other coverages to its members sold through fourteen appointed independent agents in the State of Ohio.

OPRM coverage programs are developed specific to each member's risk management needs and the related premiums for coverage are determined through the application of uniform underwriting criteria addressing the member's exposure to loss, except OPRM retains 41.5% (effective November 1, 2011) of the premium and losses on the first \$250,000 casualty treaty and 10% of the first \$1,000,000 property treaty. Effective November 1, 2012 the plan increased its retention to 50% of the first \$250,000 casualty treaty. The Plan's property retention remained unchanged from prior years. This change was made to balance the reinsurance market conditions. Members are only responsible for their self-retention (deductible) amounts, which vary from member to member. OPRM had 767 and 765 members as of December 31, 2012 and 2011 respectively.

Plan members are responsible to notify the Plan of their intent to renew coverage by their renewal date. If a member chooses not to renew with the Plan, they have no other financial obligation to the Plan, but still need to promptly notify the Plan of any potential claims occurring during their membership period. The former member's covered claims, which occurred during their membership period, remain the responsibility of the Plan.

Settlement amounts did not exceed insurance coverage for the past three fiscal years.

The Pool's audited financial statements conform with generally accepted accounting principles, and reported the following assets, liabilities and retained earnings at December 31, 2012 and 2011.

	<u>2012</u>	<u>2011</u>
Assets	\$13,100,381	\$12,501,280
Liabilities	<u>(6,687,193)</u>	<u>(5,328,761)</u>
Members' Equity	<u>\$6,413,188</u>	<u>\$7,172,519</u>

You can read the complete audited financial statements for OPRM at the Plan's website, www.ohioplan.org.

8. CONTINGENT LIABILITIES

Amounts grantor agencies pay to the District are subject to audit and adjustment by the grantor. The grantor may require refunding any disallowed costs. Management cannot presently determine amounts grantors may disallow. However, based on prior experience, management believes any refunds would be immaterial.

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Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS REQUIRED BY GOVERNMENT AUDITING STANDARDS

Troy Township Wastewater District
Ashland County
P.O. Box 55
Nova, Ohio 44859

To the Board of Trustees:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the Troy Township Wastewater District, Ashland County, Ohio, (the District) as of and for the years ended December 31, 2012 and 2011, and the related notes to the financial statements, and have issued our report thereon dated August 2, 2013, wherein we noted the District followed financial reporting provisions Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03 permit.

Internal Control Over Financial Reporting

As part of our financial statement audit, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures appropriate in the circumstances to the extent necessary to support our opinion on the financial statements, but not to the extent necessary to opine on the effectiveness of the District's internal control. Accordingly, we have not opined on it.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or combination of internal control deficiencies resulting in a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the District's financial statements. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all internal control deficiencies that might be material weaknesses or significant deficiencies. Given these limitations, we did not identify any deficiencies in internal control that we consider material weaknesses. However, unidentified material weaknesses may exist. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings, that we consider a significant deficiency in internal control. We consider finding 2012-002 a significant deficiency.

Compliance and Other Matters

As part of reasonably assuring whether the District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, opining on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed an instance of noncompliance or other matters we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2012-001.

District's Response to Findings

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.

Purpose of this Report

This report only describes the scope of our internal control and compliance testing and our testing results, and does not opine on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Dave Yost
Auditor of State

Columbus, Ohio

August 2, 2013

**TROY TOWNSHIP WASTEWATER DISTRICT
ASHLAND COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2012 AND 2011**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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FINDING NUMBER 2012-001

Noncompliance Citation

Ohio Rev. Code Section 5705.41(D) provides no subdivision or taxing unit shall make any contract or give any order involving the expenditure of money unless there is attached thereto a certificate of the fiscal officer of the subdivision stating the amount required to meet the obligation has been lawfully appropriated for such purpose and is in the treasury or in the process of collection to the credit of an appropriate fund free from any previous encumbrances. This certificate need be signed only by the subdivision's fiscal officer. Every contract made without such a certificate shall be void, and no warrant shall be issued in payment of any amount due thereon.

There are several exceptions to the standard requirement stated above that a fiscal officer's certificate must be obtained prior to a subdivision or taxing authority entering into a contract or order involving the expenditure of money. The main exceptions are: "then and now" certificates, blanket certificates, and super blanket certificates, which are provided for in sections 5705.41(D)(1) and 5705.41(D)(3), respectively, of the Ohio Revised Code.

1. **"Then and Now" Certificate** – If the fiscal officer can certify both at the time the contract or order was made ("then"), and at the time the fiscal officer is completing the certification ("now"), sufficient funds were available or in the process of collection, to the credit of a proper fund, properly appropriated and free from any previous encumbrance, the Board of Trustees can authorize the drawing of a warrant for the payment of the amount due. The Board of Trustees has thirty days from the receipt of the "then and now" certificate to approve payment by ordinance or resolution.

Amounts of less than \$3,000 may be paid by the fiscal officer without a resolution or ordinance upon completion of the "then and now" certificate, provided the expenditure is otherwise lawful. This does not eliminate any otherwise applicable requirement for approval of expenditures by the District.

2. **Blanket Certificate** – Fiscal officers may prepare "blanket" certificates for a certain sum of money not in excess of an amount established by resolution or ordinance adopted by a majority of the members of the legislative authority against any specific line item account over a period not running beyond the end of the current fiscal year. The blanket certificates may, but need not, be limited to a specific vendor. Only one blanket certificate may be outstanding at one particular time for any one particular line item appropriation.
3. **Super Blanket Certificate** – The District may also make expenditures and contracts for any amount from a specific line-item appropriation account in a specified fund upon certification of the fiscal officer for most professional services, fuel, oil, food items, and any other specific recurring and reasonably predictable operating expense. This certification is not to extend beyond the current year. More than one super blanket certificate may be outstanding at a particular time for any line item appropriation.

100 percent of expenditures tested were not certified by the Fiscal Officer prior to the purchase commitment being made. It was also found none of the exceptions above were utilized for the items found to be in non-compliance. Failure to properly certify the availability of funds can result in overspending funds and negative cash fund balance. In addition, we noted the Board of Trustees did not establish an amount in which blanket purchase orders may be written for.

Unless the exceptions noted above are used, prior certification is not only required by statute, but is a key control in the disbursement process to assure purchase commitments receive prior approval. To improve control over disbursements and to help reduce the possibility of the District's funds exceeding budgetary spending limitations, the Fiscal Officer should certify the funds are or will be available prior to the obligation by the District. When prior certification is not possible, "then and now" certification should be used.

We recommend the District certify purchases to which section 5705.41(D) applies. The most convenient certification method is to use purchase orders that include the certification language 5705.41(D) requires to authorize disbursements. The Fiscal Officer should sign the certification prior to the time the District incurs a commitment, and only when the requirements of 5705.41(D) are satisfied. The Fiscal Officer should post approved purchase commitments to the proper appropriation code, to reduce the available appropriation. The Board should also establish an amount for which its blanket certificates may be written.

Officials' Response: The fiscal officer will make sure future purchase orders are signed and attached to the bill and in place the day the items are ordered.

FINDING NUMBER 2012-002

Significant Deficiency

A necessary step in the internal control over financial reporting is to reconcile all the District's bank and investment account balances to the accounting record's fund balances. Bank reconciliation means accounting for the differences between the bank/investment statements' balances and the cash and investment balances according to the entity's records at a specific point in time.

The December 31, 2012 bank reconciliations showed a bank over book variance of \$1,492 and the December 31, 2011 bank reconciliation showed a bank over book variance of \$1,729. In 2012, \$1,492 was posted to the District's books to enable the District's book balance to agree with the bank balance. This amount was adjusted to the financial statements and District's accounting records.

Without complete and accurate monthly bank reconciliations, the District's internal control is significantly weakened which could hinder management's timely detection of errors or irregularities. The District should ensure complete monthly bank reconciliations for all the District's accounts individually and in aggregate are performed in a timely manner. All unreconciled differences or reconciling items required due to the accounting system should be resolved as quickly as possible.

Officials' Response: The District is planning to change to the UAN bookkeeping system which should help with this situation.

**TROY TOWNSHIP WASTEWATER DISTRICT
ASHLAND COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2012 AND 2011**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2010-001	Ohio Rev. Code Section 5705.41(D) – The District did not properly certify all expenditures.	No	Not Corrected. Repeated as Finding 2012-001.
2010-002	Material Weakness – Ohio Public Works Commission payment to vendor on behalf of the District were not recorded in the accounting records.	Yes	Finding No Longer Valid
2010-003	Significant Deficiency – There were errors with the bank reconciliations and financial statements.	No	Not Corrected. Repeated as Finding 2012-002

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Dave Yost • Auditor of State

TROY TOWNSHIP WASTEWATER DISTRICT

ASHLAND 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
SEPTEMBER 3, 2013**