



Rea & associates *a brighter way*

# Ayersville Water and Sewer District Defiance County, Ohio

*Audited Financial Statements*

For the Year Ended  
December 31, 2013





# Dave Yost • Auditor of State

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

We have reviewed the *Independent Auditor's Report* of the Ayersville Water and Sewer District, Defiance County, prepared by Rea & Associates, Inc., for the audit period January 1, 2013 through December 31, 2013. 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. In conjunction with the work performed by the Independent Public Accountant, the Auditor of State is issuing the following:

## **Finding for Recovery**

During the period November 16, 2010 thru April 15, 2014, the Ayersville Water and Sewer District (the District) did not have a formal policy for Hope Okuly, the Clerk, to obtain supervisory approval for adjustments. During this period there were \$58,396 in adjustments posted to customer utility accounts that were not for a valid purpose based on the following:

- The billing adjustment removed the entire amount or a portion of the amount billed from a customer's account balance with no valid reason.
- There was no evidence a subsequent bill was issued for services provided.
- There was no evidence of a corresponding increase posted to another utility account supporting a posting error had occurred.

During the same period, Ms. Okuly recorded \$9,649 utility deposits in the Utility Accounting System. However, only \$6,452 of those deposits were subsequently recorded in the District's General Ledger and deposited in the District's bank account, resulting in a shortage of \$3,197.

In accordance with the foregoing facts and pursuant to Ohio Rev. Code Section 117.28, a Finding for Recovery for public monies collected but unaccounted for is hereby issued against the Estate of Hope Okuly and Auto Owners Insurance, her surety, jointly and severally, in the amount of \$61,593 and in favor of the Ayersville Water and Sewer District.

Board of Trustees  
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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 black ink that reads "Dave Yost". The signature is written in a cursive style with a large, looping initial "D" and a long, sweeping tail on the "y".

Dave Yost  
Auditor of State

January 9, 2015

**Ayersville Water and Sewer District**

**Defiance County, Ohio**

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December 9, 2014

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

### **Independent Auditor's Report**

#### **Report on the Financial Statements**

We have audited the accompanying financial statements of each major fund of the Ayersville Water and Sewer District, Defiance County, Ohio (the District), as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

#### ***Management's Responsibility for the Financial Statements***

Management is responsible for preparing and fairly presenting these financial statements in accordance with the cash accounting basis Note 2 describes. This responsibility includes determining that the cash accounting basis is acceptable for the circumstances. Management is also responsible for designing, implementing and maintaining internal control relevant to preparing and fairly presenting financial statements that are 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 opinions.

***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash financial position of each major fund of the Ayersville Water and Sewer District, Defiance County, Ohio, as of December 31, 2013, and the respective changes in cash financial position thereof for the year then ended in accordance with the accounting basis described in Note 2.

***Accounting Basis***

We draw attention to Note 2 of the financial statements, which describes the accounting basis, which differs from generally accepted accounting principles. We did not modify our opinion regarding this matter.

***Other Matters***

***Supplemental and Other Information***

We audited to opine on the District's financial statements that collectively comprise its basic financial statements.

*Management's Discussion and Analysis* includes tables of net position and changes in net position. This information provides additional analysis and is not a required part of the basic financial statements.

These tables are management's responsibility, and derive from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. We subjected these tables to the auditing procedures we applied to the basic financial statements. We also applied certain additional procedures, including comparing and reconciling these tables directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and in accordance with auditing standards generally accepted in the United States of America. In our opinion, these tables are 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 and Analysis*, and we express no opinion or any other assurance on it.

***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated December 9, 2014 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 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 District's internal control over financial reporting and compliance.

*Hea & Associates, Inc.*

New Philadelphia, Ohio

Ayersville Water and Sewer District  
Defiance County, Ohio  
Management's Discussion and Analysis  
For the Year Ended December 31, 2013  
Unaudited

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This discussion and analysis of the Ayersville Water and Sewer District's (the District) financial performance provides an overall review of the District's financial activities for the year ended December 31, 2013, 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**

The District's net cash position increased by \$436,500 in 2013.

The District's operating cash receipts increased by \$8,805 in 2013. Operating cash disbursements increased by \$1,381 in 2013. Non-operating cash receipts decreased by \$134,190 in 2013.

### **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 statement of fund net position-cash basis and the statement of cash receipts, disbursements and changes in fund net position-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 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 District'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 generally reported in proprietary funds. When the services are provided to the general public, the activity is reported as an enterprise fund. The District has three enterprise funds used for reporting purposes which are the water, sewer, and deposits funds.

Ayersville Water and Sewer District  
 Defiance County, Ohio  
 Management's Discussion and Analysis  
 For the Year Ended December 31, 2013  
 Unaudited

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**Ayersville Water and Sewer District as a Whole**

Table 1 provides a summary of the District's net position for 2013 compared to 2012 on a cash basis. Net position of the District increased \$436,500 during 2013, due to the reasons explained in the explanations for changes after Table 2 on the following page.

(Table 1)  
**Net Position**

	2013	2012	Change Amount
Assets			
Cash and Cash Equivalents	\$ 1,319,651	\$ 883,151	\$ 436,500
<b>Total Assets</b>	<b>1,319,651</b>	<b>883,151</b>	<b>436,500</b>
Net Position			
Unrestricted	1,319,651	883,151	436,500
<b>Total Net Position</b>	<b>\$ 1,319,651</b>	<b>\$ 883,151</b>	<b>\$ 436,500</b>

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Ayersville Water and Sewer District  
Defiance County, Ohio  
Management's Discussion and Analysis  
For the Year Ended December 31, 2013  
Unaudited

Table 2 reflects the changes in net position in 2013 and 2012.

(Table 2)  
**Changes in Net Position**

	Enterprise Funds		Changes
	2013	2012	
Receipts:			
Operating Receipts:			
Charges for Services	\$ 1,152,495	\$ 1,153,501	\$ (1,006)
Other Operating Receipts	36,253	26,442	9,811
Total Operating Receipts	<u>1,188,748</u>	<u>1,179,943</u>	<u>8,805</u>
Disbursements:			
Operating Disbursements:			
Personal Services	120,368	114,189	6,179
Fringe Benefits	53,959	65,197	(11,238)
Contractual Services	382,497	364,318	18,179
Materials and Supplies	21,108	32,307	(11,199)
Other	433	973	(540)
Total Operating Disbursements	<u>578,365</u>	<u>576,984</u>	<u>1,381</u>
Operating Income (Loss)	<u>610,383</u>	<u>602,959</u>	<u>7,424</u>
Non-Operating Receipts (Disbursements)			
Interest	65	138	(73)
Special Assessments	114,492	119,714	(5,222)
Proceeds from OWDA Loan	129,615	258,510	(128,895)
Capital Outlay	(104,754)	(302,551)	197,797
Principal Payments	(226,661)	(216,412)	(10,249)
Interest and Fiscal Charges	(86,640)	(96,994)	10,354
Total Non-Operating Receipts(Disbursements)	<u>(173,883)</u>	<u>(237,595)</u>	<u>63,712</u>
Change in Net Position	436,500	365,364	71,136
Net Position, January 1	883,151	517,787	365,364
Net Position, December 31	<u>\$ 1,319,651</u>	<u>\$ 883,151</u>	<u>\$ 436,500</u>

For 2013, operating cash receipts and disbursements remained comparable to 2012. Non-operating disbursements decreased by \$197,902 as a result of substantial completion of capital projects in 2012.

Ayersville Water and Sewer District  
Defiance County, Ohio  
Management's Discussion and Analysis  
For the Year Ended December 31, 2013  
Unaudited

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**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 \$104,754 in 2013.

Debt

At December 31, 2013, the District's outstanding debt included \$967,100 in United States Department of Agriculture rural development bonds issued for construction of the District's sanitary sewer project, \$431,127 in Ohio Water Development Authority (OWDA) loans for sewer related projects and \$358,642 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 District is finalizing their Phase B Sewer Project and should have everything completed and the loan finalized by the end of 2014. No significant additional construction projects are anticipated in the near future. The District is working to put additional internal controls in place and establish an audit/finance committee to provide stronger oversight by the Board of Trustees.

**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 Government'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 Gayle Decatur, Clerk, Ayersville Water and Sewer District, 13961 Fruit Ridge Road, Defiance, OH 43512.

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

*Statement of Fund Net Position - Cash Basis  
Proprietary Funds  
As of December 31, 2013*

	Enterprise Funds			Total
	Water Fund	Sewer Fund	Deposits Fund	Enterprise Funds
<b>Assets</b>				
Equity in Pooled Cash and Cash Equivalents	\$ 634,099	\$ 670,257	\$ 15,295	\$ 1,319,651
<i>Total Assets</i>	634,099	670,257	15,295	1,319,651
<b>Net Position</b>				
Unrestricted	\$ 634,099	\$ 670,257	\$ 15,295	\$ 1,319,651

See accompanying notes to the basic financial statements

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

*Statement of Cash Receipts, Disbursements and Changes in Fund Net Position - Cash Basis  
Proprietary Funds  
For the Year Ended December 31, 2013*

	Enterprise Funds			Total Enterprise Funds
	Water Fund	Sewer Fund	Deposits Fund	
<b>Operating Receipts</b>				
Charges for Services	\$ 530,771	\$ 619,474	\$ 2,250	\$ 1,152,495
Other Operating Receipts	10,751	25,502	0	36,253
<i>Total Operating Receipts</i>	<u>541,522</u>	<u>644,976</u>	<u>2,250</u>	<u>1,188,748</u>
<b>Operating Disbursements</b>				
Personal Services	45,616	74,752	0	120,368
Fringe Benefits	23,936	30,023	0	53,959
Contractual Services	173,445	209,052	0	382,497
Materials and Supplies	10,633	10,475	0	21,108
Other	0	0	433	433
<i>Total Operating Disbursements</i>	<u>253,630</u>	<u>324,302</u>	<u>433</u>	<u>578,365</u>
<i>Operating Income (Loss)</i>	<u>287,892</u>	<u>320,674</u>	<u>1,817</u>	<u>610,383</u>
<b>Non-Operating Receipts (Disbursements)</b>				
Interest	25	40	0	65
Special Assessments	0	114,492	0	114,492
Proceeds from OWDA Loans	0	129,615	0	129,615
Capital Outlay	0	(104,754)	0	(104,754)
Principal Payments	(59,447)	(167,214)	0	(226,661)
Interest and Fiscal Charges	(25,848)	(60,792)	0	(86,640)
<i>Total Non-Operating Receipts (Disbursements)</i>	<u>(85,270)</u>	<u>(88,613)</u>	<u>0</u>	<u>(173,883)</u>
<i>Change in Net Position</i>	202,622	232,061	1,817	436,500
<i>Net Position Beginning of Year</i>	<u>431,477</u>	<u>438,196</u>	<u>13,478</u>	<u>883,151</u>
<i>Net Position End of Year</i>	<u>\$ 634,099</u>	<u>\$ 670,257</u>	<u>\$ 15,295</u>	<u>\$ 1,319,651</u>

See accompanying notes to the basic financial statements

Ayersville Water and Sewer District  
Defiance County, Ohio  
Notes to the Financial Statements  
For the Year Ended December 31, 2013

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**Note 1 – Reporting Entity**

Ayersville Water and Sewer District, Defiance County, 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 the 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. Following are the more significant of the 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 position and a statement of cash receipts, disbursements, and changes in fund net position.

Ayersville Water and Sewer District  
Defiance County, Ohio  
Notes to the Financial Statements  
For the Year Ended December 31, 2013

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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. Non-major funds are aggregated and presented in a single column.

Proprietary fund statements distinguish operating transactions from non-operating 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 funds.

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 deposit funds.

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

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.

Ayersville Water and Sewer District  
Defiance County, Ohio  
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For the Year Ended December 31, 2013

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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 Board's 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.

#### 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.

Ayersville Water and Sewer District  
Defiance County, Ohio  
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For the Year Ended December 31, 2013

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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 an other financing source nor a capital outlay expenditure are reported at inception.

K. Net Position

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

L. Implementation of New Accounting Policies

For the year ended December 31, 2013, the District has implemented Governmental Accounting Standards Board (GASB) Statement No. 66, "Technical Corrections—2012—an amendment of GASB Statements No. 10 and No. 62."

GASB Statement No. 66 resolves conflicting accounting and financial reporting guidance that could diminish the consistency of financial reporting and thereby enhance the usefulness of the financial reports. The implementation of GASB Statement No. 66 did not have an effect on the financial statements of the District.

**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.

Ayersville Water and Sewer District  
Defiance County, Ohio  
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Inactive deposits are public deposits the Board has identified as not required for use within the current five year period of designation of 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.

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 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).
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

Ayersville Water and Sewer District  
Defiance County, Ohio  
Notes to the Financial Statements  
For the Year Ended December 31, 2013

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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.

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 amount of the District's deposits as of December 31, 2013 was \$1,319,451. The bank balance of the District's deposits as of December 31, 2013 was \$1,324,785. 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 District.

As of December 31, 2013, the District has \$200 in 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**

A. Ohio Public Employees Retirement System (OPERS) administers three separate pension plans as described below:

- 1) The Traditional Pension Plan - a cost sharing, multiple-employer defined benefit pension plan.
- 2) The Member-Directed Plan - 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 - 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, but less than, 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.

Ayersville Water and Sewer District  
Defiance County, Ohio  
Notes to the Financial Statements  
For the Year Ended December 31, 2013

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- 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.
- 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, 277 East Town Street, Columbus, OH 43215-4642, or by calling 614-222-5601 or 800-222-7377.
- E. The Ohio Revised Code provides statutory authority for member and employer contributions. For 2013, member and employer contribution rates were consistent across all three plans. Members may participate in all three plans.

The member contribution rates for covered payroll were 10.0% for 2013, 2012, and 2011.

The employer contribution rates for covered payroll were 14.0% for 2013, 2012, and 2011.

- F. The District's required contributions for pension obligations to the traditional and combined plans for the years ended December 31, 2013, 2012, and 2011 were \$16,852, \$15,986, and \$15,800 respectively; 100 percent has been contributed for 2013, 2012, and 2011.

**Note 6 – Postemployment Benefits**

A. Plan Description

Ohio Public Employees Retirement System (OPERS) administers three separate pension plans: The Traditional Pension Plan—a cost-sharing, multiple-employer defined benefit pension plan; the Member-Directed Plan—a defined contribution plan; and the Combined Plan—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 health care plan, which includes a medical plan, prescription drug program and Medicare Part B premium reimbursement, to qualifying members of both the Traditional Pension and the Combined 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 45.

The Ohio Revised Code permits, but does not mandate, OPERS to provide the OPEB Plan to its eligible members and beneficiaries. Authority to establish and amend the OPEB Plan 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>, by writing to OPERS, 277 East Town Street, Columbus, OH 43215-4642, or by calling 614-222-5601 or 800-222-7377.

Ayersville Water and Sewer District  
Defiance County, Ohio  
Notes to the Financial Statements  
For the Year Ended December 31, 2013

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B. Funding Policy

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

Employer contribution rates are expressed as a percentage of the covered payroll of active members. In 2013, 2012, and 2011, state and local employers contributed at a rate of 14.00% of covered payroll. These are the maximum employer contribution rates permitted by the Ohio Revised Code. Active members do not make contributions to the OPEB Plan.

OPERS' Post Employment Health Care plan was established under, and is administrated in accordance with, Internal Revenue Code 401(h). Each year, the OPERS Board of Trustees determines the portion of the employer contribution rate that will be set aside for funding of post-employment health care benefits. The portion of employer contributions allocated to health care for members in the Traditional Plan was 1.0% during calendar year 2013. The portion of employer contributions allocated to health care for members in the Combined Plan was 1.0% during calendar year 2013. Effective January 1, 2014, the portion of employer contributions allocated to healthcare was raised to 2.0% for both plans, as recommended by the OPERS Actuary. The OPERS Board of Trustees is also authorized to establish rules for the retiree or their surviving beneficiaries to pay a portion of the health care benefits provided. 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 \$1,204 for 2013, \$4,568 for 2012 and \$4,514 for 2011 respectively; 100 percent has been contributed for 2013, 2012, and 2011.

D. OPERS Board of Trustees Adopt Changes to the Health Care Plan

Changes to the health care plan were adopted by the OPERS Board of Trustees on September 19, 2012, with a transition plan commencing January 1, 2014. With the recent passage of pension legislation under SB 343 and the approved health care changes, OPERS expects to be able to consistently allocate 4 percent of the employer contributions toward the health care fund after the end of the transition period.

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Ayersville Water and Sewer District  
Defiance County, Ohio  
Notes to the Financial Statements  
For the Year Ended December 31, 2013

**Note 7 – Debt**

The District's long-term debt activity for the year ended December 31, 2013, was as follows:

<u>Sewer Fund:</u>	Interest Rate	Original Issue Amount	Balance December 31, 2012	Additions	Deletions	Balance December 31, 2013	Due Within On Year
USDA Rural Develop- ment Bonds	4.75%	1,740,265	\$ 1,057,500	\$ 0	\$ 90,400	\$ 967,100	\$ 94,800
OWDA Loan #5864	2.82% & 3.95%	808,339	378,326	129,615	76,814	431,127	0
<b>Total Sewer Fund</b>			<u>1,435,826</u>	<u>129,615</u>	<u>167,214</u>	<u>1,398,227</u>	<u>94,800</u>
<u>Water Fund:</u>							
OWDA Loan # 1470	7.50%	129,634	47,048	0	8,101	38,947	8,708
OWDA Loan # 1473	7.03%	587,190	256,288	0	32,506	223,782	34,791
OWDA Loan # 2610	2.00%	204,066	53,171	0	11,417	41,754	11,645
OWDA Loan # 2611	2.00%	25,815	6,872	0	1,474	5,398	1,504
OWDA Loan # 3042	6.24%	117,012	54,710	0	5,949	48,761	6,321
<b>Total Water Fund</b>			<u>418,089</u>	<u>0</u>	<u>59,447</u>	<u>358,642</u>	<u>62,969</u>
<b>Total Enterprise Funds</b>			<u>\$ 1,853,915</u>	<u>\$ 129,615</u>	<u>\$ 226,661</u>	<u>\$ 1,756,869</u>	<u>\$ 157,769</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.

The Ohio Water Development Authority (OWDA) loan relates 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 to repay \$3,612,321 in USDA Rural Development Bonds and OWDA loans issued from 1991 to 2013. Proceeds from the bonds and loans 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 2022. Annual principal and interest payments remaining on the bonds and loans are expected to require less than 25 percent of revenues. The total principal and interest remaining to be paid on the bonds and loans is \$1,846,557. Principal and interest paid for the current year and total customer revenues were \$313,301 and \$1,303,305, respectively.

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Ayersville Water and Sewer District  
 Defiance County, Ohio  
 Notes to the Financial Statements  
 For the Year Ended December 31, 2013

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

Year	USDA Bonds		OWDA Loans	
	Principal	Interest	Principal	Interest
2014	\$ 94,800	\$ 44,823	\$ 62,969	\$ 22,639
2015	99,200	40,267	66,726	18,882
2016	104,000	35,498	70,733	14,875
2017	108,900	30,501	67,961	10,601
2018	114,500	25,262	53,708	6,179
2019-2022	445,700	43,353	36,545	2,762
Total	<u>\$ 967,100</u>	<u>\$ 219,704</u>	<u>\$ 358,642</u>	<u>\$ 75,938</u>

OWDA loan #5864 is still open as of December 31, 2013 and no amortization schedules have been established for this loan.

The OWDA loan #5864 is for costs relating to the design of the District's Sanitary Sewer Project. The design costs related to this project was not completed at December 31, 2013, and therefore this loan has not been finalized at December 31, 2013. The balance on this loan was \$431,127 at December 31, 2013. The District anticipates drawing additional funds from this loan in the future.

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Ayersville Water and Sewer District  
 Defiance County, Ohio  
 Notes to the Financial Statements  
 For the Year Ended December 31, 2013

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**Note 8 – Budgetary Activity**

Budgetary activity, which is accounted for on the cash basis of accounting, is as following for the year ended December 31, 2013:

2013 Budgeted vs. Actual Receipts			
	Budgeted Receipts	Actual Receipts	Variance
Fund			
Water	\$ 412,040	\$ 541,547	\$ 129,507
Sewer	636,040	889,123	253,083
Deposits	500	2,250	1,750
Total	\$ 1,048,580	\$ 1,432,920	\$ 384,340

2013 Budgeted vs. Actual Budgetary Basis Expenditures			
	Appropriation Authority	Budgetary Expenditures	Variance
Fund			
Water	\$ 399,718	\$ 338,925	\$ 60,793
Sewer	707,827	657,062	50,765
Deposits	1,000	433	567
Total	\$ 1,108,545	\$ 996,420	\$ 112,125

**Note 9 – Contingencies**

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

December 9, 2014

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

**Independent Auditor's 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***

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 each major fund of the Ayersville Water and Sewer District, Defiance County, Ohio (the District), as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated December 9, 2014, wherein we noted the District uses a special purpose framework other than generally accepted accounting principles.

**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 opinions 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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Therefore, unidentified material weaknesses or significant deficiencies may exist. 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 a 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. We consider finding 2013-001 described in the accompanying schedule of findings to be a material weakness.

A *significant deficiency* is a deficiency, or a combination of internal control deficiencies less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider findings 2013-002 through 2013-004 described in the accompanying schedule of findings to be significant deficiencies.

**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 no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

**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.

*Rea & Associates, Inc.*

New Philadelphia, Ohio

**Ayersville Water and Sewer District**  
**Defiance County, Ohio**  
*Schedule of Findings*  
*For the Year Ended December 31, 2013*

**Finding Number: 2013-001**

**Material Weakness**

**Criteria:** The District's management is responsible for designing and implementing internal controls over financial reporting. Segregation of duties is a critical element in the design of effective internal controls over financial reporting. Preparation of the financial statements in accordance with the applicable framework is the responsibility of management.

**Condition:** The Clerk has the primary responsibility for performing most of the accounting and financial duties. There were material audit adjustments made to the financial statements presented for audit. Financial statements presented for audit did not include complete and accurate Management Discussion and Analysis or Notes.

**Cause:** Some of the aspects of internal accounting control which rely upon adequate segregation of duties are missing in the District.

**Effect:** Water fund OWDA loan obligations were retired using resources from the sewer fund. Delinquent user charges collected by the County through special assessments were improperly classified on the statement of receipts, expenditures and changes in net position-cash basis as Special Assessments rather than Charges for Services. Delinquent water user charges collected by the County through special assessments were improperly receipted to the sewer fund. Beginning fund balances in UAN as of January 1, 2013 did not agree to the audited fund balances between the funds as management did not record prior year audit adjustments; however, the total fund balance did agree. Personal Services expenditures were improperly classified as Fringe Benefits expenditures. Management's Discussion and Analysis and the Notes to the Basic Financial Statements were not completed accurately by management.

**Recommendation:** The supervision and periodic review procedures currently in place help mitigate the lack of proper segregation of duties and should be continued. The following suggestions are procedures which could be performed by the Manager or members of the Board of Trustees to further compensate for known weaknesses attributable to an inadequate segregation of duties:

- 1) Receive all bank statements unopened and review their contents
- 2) Review bank reconciliations carefully
- 3) Approve and monitor changes to payroll
- 4) Review monthly and annual financial statements and question variances
- 5) Have a questioning attitude
- 6) Review adjustments made to the District accounting system

**Management's Response:** The District is working with its accounting consultant to put additional internal controls in place and establish an audit/finance committee to provide stronger oversight by the Board of Trustees.

**Finding Number: 2013-002**

**Significant Deficiency**

**Criteria:** The District's management is responsible for designing and implementing internal controls over financial reporting as well as maintaining an adequate internal control structure over daily operations. Daily operations include both the receipting and disbursement processes of the District. Segregation of duties is a critical element in the design of effective internal controls over financial reporting.

**Ayersville Water and Sewer District**  
**Defiance County, Ohio**  
*Schedule of Findings (Continued)*  
*For the Year Ended December 31, 2013*

**Finding Number: 2013-002 (Continued)**

**Condition:** We identified unsupported and unapproved customer account adjustments made to the utility billing system.

**Cause:** The District does not have adequate internal controls in place in regards to reviewing and approving adjustments to customer accounts and segregation of duties between the receipting function and the function of entering the receipt information into the utility billing system.

**Effect:** Customer payments could be received and not deposited to District bank accounts without being detected. Operating revenues could be understated on the financial statements. In addition, audit procedures revealed several instances where a customer made payment in cash and was issued a receipt, but no evidence of the payment being deposited to the District's bank account was identified. Audit procedures also identified other adjustments in which we noted the adjustment reduced the entire or a portion of an amount billed from a customer's balance with no explanation, no evidence of a subsequent billing for services provided and no evidence of an increase in the balance to a different customer account supporting the correction of any type of error.

**Recommendation:** We recommend the District establish a process to segregate the receipting function and the function of posting the receipt information into the utility billing system. We further recommend the District Manager and Board of Trustees run adjustment reports from the utility billing system periodically, review all posted adjustments and formally document the review and approval. The District should require the person posting the adjustment to document a description of the adjustment in sufficient detail. This documentation such be kept and made available for audit.

**Management's Response:** The District has established a process to verify the receipts of the District and the posting of those receipts into the billing system. The District is working with its accounting consultant to put additional internal controls in place and establish regular review of accounting reports by the Board of Trustees.

**Finding Number: 2013-003**

**Significant Deficiency**

**Criteria:** The District's management is responsible for designing and implementing internal controls over financial reporting. The District is also responsible for maintaining adequate records related to customer accounts including deposit balances.

**Condition:** The District lacks a detailed list of customer accounts with a deposit balance. We identified customer deposit collections recorded to the utility billing system that were not deposited to District bank accounts or receipted into the deposits fund in UAN.

**Cause:** The District does not perform regular reconciliations of deposit balances reported in the utility billing system to the deposit balances reported in UAN. In addition, the District does not record an entry to move cash from the deposits fund in UAN to the water and sewer funds when the customer's deposit balance is applied to the final amount owed. Furthermore, there are instances where customer deposit transactions were posted to an incorrect transaction type in the utility billing system in a way that causes the utility billing system to report an incorrect deposit balance.

**Effect:** There is a risk of misstatement in the water, sewer and deposits funds on the financial statements.

**Ayersville Water and Sewer District**  
**Defiance County, Ohio**  
*Schedule of Findings (Continued)*  
*For the Year Ended December 31, 2013*

**Finding Number: 2013-003 (Continued)**

**Recommendation:** We recommend management review the existing deposit balances reported in the utility billing system and update the system to reflect the actual amounts held on deposit. This should be done in such a manner that a detailed list indicating each customer account, customer name, date and amount of deposit are presented. The UAN deposits fund balance should agree to the list generated by the utility billing system. A regular reconciliation of the deposits list and UAN should occur. A formal review and approval by someone independent of preparing the deposit list should be performed.

**Management's Response:** The District is working with its accounting consultant to put additional internal controls in place and establish a procedure whereby the District's management and Board of Trustees will review the existing deposit balances reported in the utility billing system and update the system to reflect the actual amounts held on deposit.

**Finding Number: 2013-004**

**Significant Deficiency**

**Criteria:** The District's management is responsible for designing and implementing internal controls over financial reporting as well as maintaining an internal control structure over daily operations. This includes having proper policies and procedures in place to reduce the risk of fraud or error.

**Condition:** The District does not have a sufficient accounting procedures manual to allow for seamless operations from one employee to the next.

**Cause:** The District has not approved an accounting procedures manual.

**Effect:** If an employee were to leave the employ of the District, much time and effort would be needed to maintain accounting procedures. Daily operations, including cash flow could be effected by lack of policies and procedures.

**Recommendation:** We recommend the District prepare an accounting procedures manual. The manual should include a chart of accounts, adequate explanations of account content, daily, month-end and year-end closing procedures, appropriate descriptions of all accounting procedures and routines and all matters that bear directly or indirectly on the functioning of the system of internal accounting control. Once the manual is complete, subsequent revisions should be subject to formal approval procedures.

**Management's Response:** The District is working with its accounting consultant to create an accounting procedure manual to ensure the District maintains consistency in its accounting practices.

**Ayersville Water and Sewer District**  
**Defiance County, Ohio**  
*Schedule of Prior Audit Findings*  
*For the Year Ended December 31, 2013*

<b>Finding Number</b>	<b>Finding Summary</b>	<b>Fully Corrected?</b>	<b>Corrected, Significantly Different Corrective Action Taken or Finding No Longer Valid Explain</b>
2012-001	Material Weakness – segregation of duties	No	Repeated as finding 2013-001
2012-002	Significant Deficiency – lack of controls over customer account adjustments	No	Repeated as finding 2013-002
2012-003	Significant Deficiency – lack of supporting documentation and reconciliation for customer accounts with amounts held on deposit	No	Repeated as finding 2013-003
2012-004	Significant Deficiency – lack of written accounting procedures manual	No	Repeated as finding 2013-004

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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  
FEBRUARY 17, 2015**