



Rea & associates *a brighter way*

Ayersville Water and Sewer District

Defiance County, Ohio

Audited Financial Statements

For the Years Ended
December 31, 2015 and 2014



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, 2014 through December 31, 2015. 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 black ink that reads "Dave Yost".

Dave Yost
Auditor of State

July 19, 2016

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Ayersville Water and Sewer District

Defiance County, Ohio

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June 14, 2016

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 the fund cash balances, receipts and disbursements, and related notes of the Ayersville Water and Sewer District, Defiance County, Ohio, (the District) as of and for the years ended December 31, 2015 and 2014.

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 Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D) permit; 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 opinions.

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

As described in Note 2 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(D), which is an accounting basis other than accounting principles generally accepted in the United States of America (GAAP), to satisfy these requirements.

Although the effects on the financial statements of the variances between the regulatory accounting basis and GAAP are not reasonably determinable, we presume they are material.

Though the District does not intend these statements to conform to GAAP, auditing standards generally accepted in the United States of America require us to include an adverse opinion on GAAP. However, the adverse opinion does not imply the amounts reported are materially misstated under the accounting basis Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D) permit. Our opinion on this accounting basis is in the *Opinion on Regulatory Basis of Accounting* paragraph below.

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, 2015 and 2014, or changes in financial position or cash flows 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 Ayersville Water and Sewer District, Defiance County, Ohio as of December 31, 2015 and 2014, and its combined 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(D) permit, described in Note 2.

Other Matters

Our audit was conducted to opine on the financial statements taken as a whole.

The schedules of cash receipts, disbursements and changes in fund balances by fund present additional analysis and are not a required part of the financial statements.

These schedules are management's responsibility, and derive from and relate directly to the underlying accounting and other records used to prepare the financial statements. We subjected these schedules to the auditing procedures we applied to the financial statements. We also applied certain additional procedures, including comparing and reconciling these schedules directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, in accordance with auditing standards generally accepted in the United States of America. In our opinion, these schedules are fairly stated in all material respects in relation to the financial statements taken as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 14, 2016, 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.

Hea & Associates, Inc.

Medina, Ohio

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

*Combined Schedule of Cash Receipts, Disbursements and
Changes in Fund Balances (Cash Basis)
For the Years Ended December 31, 2015 and 2014*

	2015	2014
Operating Cash Receipts:		
Charges for Services	\$ 1,018,089	\$ 1,042,238
Other Operating Receipts	860	2,240
<i>Total Operating Cash Receipts</i>	<u>1,018,949</u>	<u>1,044,478</u>
Operating Cash Disbursements:		
Personal Services	131,243	109,348
Fringe Benefits	58,024	55,874
Contractual Services	470,165	464,743
Materials and Supplies	35,996	28,528
Capital Outlay	-	149,103
Other	561	185
<i>Total Operating Cash Disbursements</i>	<u>695,989</u>	<u>807,781</u>
<i>Operating Income/(Loss)</i>	<u>322,960</u>	<u>236,697</u>
Non-Operating Cash Receipts:		
Interest	3,826	236
Special Assessments	309,098	388,299
Proceeds from OWDA Loans	-	124,045
Judgements and Settlements	27,851	15,000
Rent Receipts	9,350	-
<i>Total Non-Operating Cash Receipts</i>	<u>350,125</u>	<u>527,580</u>
Non-Operating Cash Disbursements:		
Principal Payments	(260,223)	(237,647)
Interest and Fiscal Charges	(70,180)	(75,761)
<i>Total Non-Operating Cash Disbursements</i>	<u>(330,403)</u>	<u>(313,408)</u>
<i>Net Receipts Over/(Under) Disbursements</i>	342,682	450,869
Fund Cash Balance at Beginning of Year	1,770,520	1,319,651
Fund Cash Balance at End of Year	<u>\$ 2,113,202</u>	<u>\$ 1,770,520</u>

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

Ayersville Water and Sewer District
Defiance County, Ohio
Notes to the Financial Statements
For the Years Ended December 31, 2015 and 2014

Note 1 – Description of the Entity

The constitution and laws of the State of Ohio establish the rights and privileges for the Ayersville Water and Sewer District, Defiance County, Ohio (the District) as a body corporate and politic. 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 District provides water and sewer services to residents of the District.

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

Note 2 – Summary of Significant Accounting Policies

A. Accounting Basis

These financial statements follow the accounting basis permitted by the financial reporting provisions of Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D). This basis is similar to the cash receipts and disbursements accounting basis. The Board recognizes receipts when received in cash rather than when earned, and recognizes disbursements when paid rather than when a liability is incurred. Budgetary presentations report budgetary expenditures when a commitment is made (i.e., when an encumbrance is approved).

These statements include adequate disclosure of material matters, as the financial reporting provisions of Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D) permit.

B. 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.

C. 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 deposits 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.

Note 2 – Summary of Significant Accounting Policies (continued)

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 fund or 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). Appropriations lapse at year end.

2. Estimated Resources

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

3. Encumbrances

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

A summary of 2015 and 2014 budgetary activity appears in Note 5.

E. Property, Plant and Equipment

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

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 financial statements.

G. 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 in the financial statements.

H. Long-Term Obligations

The District's 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.

I. Change in Basis of Accounting

In the previous reporting period, the District reported fund financial statements with each fund in a separate column, rather than a single column for the total enterprise funds. This reporting period, the District reported using the Regulatory basis of accounting described in note 2.A. There was no effect on beginning fund balance in total.

Ayersville Water and Sewer District
 Defiance County, Ohio
 Notes to the Financial Statements
 For the Years Ended December 31, 2015 and 2014

Note 3 – Equity in Pooled Deposits

The District may invest in certificates of deposits. The carrying amount of deposits and investments at December 31 was as follows:

	2015	2014
Demand deposits	\$405,747	\$666,887
Certificates of Deposit	1,707,455	1,103,633
Total deposits	\$2,113,202	\$1,770,520

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

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 significant change in coverage in the past three years. However, due to the finding for recovery issued in the prior audit, claims did exceed insurance coverage during the years 2015 and 2014 by a total of \$11,491. The finding for recovery totaled \$61,593 while \$27,851 was recovered during 2015. As of December 31, 2015, the District was due \$22,250 from the insurer and the amount was received in 2016.

Note 5 – Budgetary Activity

Budgetary activity for the years ending December 31, 2015 and 2014 follows:

2014 Budgeted vs. Actual Receipts				2015 Budgeted vs. Actual Receipts			
	Budgeted Receipts	Actual Receipts	Variance		Budgeted Receipts	Actual Receipts	Variance
Fund				Fund			
Water	\$ 436,730	\$ 560,646	\$ 123,916	Water	\$ 481,450	\$ 568,169	\$ 86,719
Sewer	689,030	1,008,234	319,204	Sewer	746,050	794,951	48,901
Deposits	1,000	3,178	2,178	Deposits	1,000	5,954	4,954
Total	\$ 1,126,760	\$ 1,572,058	\$ 445,298	Total	\$ 1,228,500	\$ 1,369,074	\$ 140,574

2014 Budgeted vs. Actual Budgetary Basis Expenditures				2015 Budgeted vs. Actual Budgetary Basis Expenditures			
	Appropriation Authority	Budgetary Expenditures	Variance		Appropriation Authority	Budgetary Expenditures	Variance
Fund				Fund			
Water	\$ 417,828	\$ 388,948	\$ 28,880	Water	\$ 448,178	\$ 382,085	\$ 66,093
Sewer	667,723	732,056	(64,333)	Sewer	665,550	643,746	21,804
Deposits	1,000	185	815	Deposits	1,000	561	439
Total	\$ 1,086,551	\$ 1,121,189	\$ (34,638)	Total	\$ 1,114,728	\$ 1,026,392	\$ 88,336

Ayersville Water and Sewer District
Defiance County, Ohio
Notes to the Financial Statements
For the Years Ended December 31, 2015 and 2014

Note 6 – Defined Benefit Pension Plans

The District’s employees belong to the Ohio Public Employees Retirement Systems (OPERS). OPERS is a cost-sharing, multiple-employer plan. The Ohio Revised Code prescribes this plan’s benefits, which include postretirement healthcare and survivor and disability benefits.

The Ohio Revised Code also prescribes contribution rates. For 2015 and 2014, 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, 2015 and December 31, 2014.

Note 7 - Debt

The District’s long-term debt activity for the year ended December 31, 2015, was as follows:

	Interest Rate	Original Issue Amount	Balance December 31, 2014	Additions	Deletions	Balance December 31, 2015	Due Within One Year
<u>Sewer Fund:</u>							
USDA Rural Development Bonds	4.75%	1,740,265	\$ 872,300	\$ -	\$ 99,200	\$ 773,100	\$ 104,000
OWDA Loan #5864	2.82% & 3.95%	808,339	475,294	-	94,297	380,997	-
Total Sewer Fund			<u>1,347,594</u>	<u>-</u>	<u>193,497</u>	<u>1,154,097</u>	<u>104,000</u>
<u>Water Fund</u>							
OWDA Loan # 1470	7.50%	129,634	30,239	-	9,362	20,877	10,064
OWDA Loan # 1473	7.03%	587,190	188,991	-	37,237	151,754	39,855
OWDA Loan # 2610	2.00%	204,066	30,109	-	11,878	18,231	12,115
OWDA Loan # 2611	2.00%	25,815	3,894	-	1,534	2,360	1,565
OWDA Loan # 3042	6.24%	117,012	42,440	-	6,715	35,725	7,134
Total Water Fund			<u>295,673</u>	<u>-</u>	<u>66,726</u>	<u>228,947</u>	<u>70,733</u>
Total Enterprise Funds			<u>\$ 1,643,267</u>	<u>\$ -</u>	<u>\$ 260,223</u>	<u>\$ 1,383,044</u>	<u>\$ 174,733</u>

The District’s long-term debt activity for the year ended December 31, 2014, was as follows:

	Interest Rate	Original Issue Amount	Balance December 31, 2013	Additions	Deletions	Balance December 31, 2014	Due Within One Year
<u>Sewer Fund:</u>							
USDA Rural Development Bonds	4.75%	1,740,265	\$ 967,100	\$ -	\$ 94,800	\$ 872,300	\$ 99,200
OWDA Loan # 5864	2.82% & 3.95%	808,339	431,127	124,045	79,878	475,294	-
Total Sewer Fund			<u>1,398,227</u>	<u>124,045</u>	<u>174,678</u>	<u>1,347,594</u>	<u>99,200</u>
<u>Water Fund</u>							
OWDA Loan # 1470	7.50%	129,634	38,947	-	8,708	30,239	9,362
OWDA Loan # 1473	7.03%	587,190	223,782	-	34,791	188,991	37,237
OWDA Loan # 2610	2.00%	204,066	41,754	-	11,645	30,109	11,878
OWDA Loan # 2611	2.00%	25,815	5,398	-	1,504	3,894	1,534
OWDA Loan # 3042	6.24%	117,012	48,761	-	6,321	42,440	6,715
Total Water Fund			<u>358,642</u>	<u>-</u>	<u>62,969</u>	<u>295,673</u>	<u>66,726</u>
Total Enterprise Funds			<u>\$ 1,756,869</u>	<u>\$ 124,045</u>	<u>\$ 237,647</u>	<u>\$ 1,643,267</u>	<u>\$ 165,926</u>

Ayersville Water and Sewer District
 Defiance County, Ohio
 Notes to the Financial Statements
 For the Years Ended December 31, 2015 and 2014

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 amortization schedules below do not include OWDA Loan #5864 as no amortization schedule has been finalized as of December 31, 2015.

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

December 31, 2015

Year	USDA Bonds		OWDA Loans	
	Principal	Interest	Principal	Interest
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	119,600	19,763	32,140	2,485
2020	125,800	14,008	4,405	277
2021-2022	200,300	9,582	-	-
Total	<u>\$ 773,100</u>	<u>\$ 134,614</u>	<u>\$ 228,947</u>	<u>\$ 34,417</u>

December 31, 2014

Year	USDA Bonds		OWDA Loans	
	Principal	Interest	Principal	Interest
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	119,600	19,763	32,140	2,485
2020-2022	326,100	23,590	4,405	277
Total	<u>\$ 872,300</u>	<u>\$ 174,881</u>	<u>\$ 295,673</u>	<u>\$ 53,299</u>

SUPPLEMENTARY INFORMATION

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

*Schedule of Cash Receipts, Disbursements and
Changes in Fund Balances by Fund (Cash Basis)
For the Year Ended December 31, 2015*

	Enterprise Funds			Total Enterprise Funds
	Water Fund	Sewer Fund	Deposits Fund	
Operating Cash Receipts:				
Charges for Services	\$ 544,996	\$ 468,532	\$ 4,561	\$ 1,018,089
Other Operating Receipts	431	429	-	860
<i>Total Operating Cash Receipts</i>	<u>545,427</u>	<u>468,961</u>	<u>4,561</u>	<u>1,018,949</u>
Operating Cash Disbursements:				
Personal Services	37,639	93,604	-	131,243
Fringe Benefits	28,895	29,129	-	58,024
Contractual Services	217,165	253,000	-	470,165
Materials and Supplies	12,986	23,010	-	35,996
Other	-	-	561	561
<i>Total Operating Cash Disbursements</i>	<u>296,685</u>	<u>398,743</u>	<u>561</u>	<u>695,989</u>
<i>Operating Income/(Loss)</i>	<u>248,742</u>	<u>70,218</u>	<u>4,000</u>	<u>322,960</u>
Non-Operating Cash Receipts:				
Interest	1,913	1,913	-	3,826
Special Assessments	-	309,098	-	309,098
Rent Receipts	4,675	4,675	-	9,350
Judgements and Settlements	16,154	10,304	1,393	27,851
<i>Total Non-Operating Cash Receipts</i>	<u>22,742</u>	<u>325,990</u>	<u>1,393</u>	<u>350,125</u>
Non-Operating Cash Disbursements:				
Principal Payments	(66,726)	(193,497)	-	(260,223)
Interest and Fiscal Charges	(18,674)	(51,506)	-	(70,180)
<i>Total Non-Operating Cash Disbursements</i>	<u>(85,400)</u>	<u>(245,003)</u>	<u>-</u>	<u>(330,403)</u>
<i>Net Receipts Over/(Under) Disbursements</i>	186,084	151,205	5,393	342,682
Fund Cash Balance at Beginning of Year	<u>805,797</u>	<u>946,435</u>	<u>18,288</u>	<u>1,770,520</u>
Fund Cash Balance at End of Year	<u>\$ 991,881</u>	<u>\$ 1,097,640</u>	<u>\$ 23,681</u>	<u>\$ 2,113,202</u>

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

*Schedule of Cash Receipts, Disbursements and
Changes in Fund Balances by Fund (Cash Basis)
For the Year Ended December 31, 2014*

	Enterprise Funds			Total Enterprise Funds
	Water Fund	Sewer Fund	Deposits Fund	
Operating Cash Receipts:				
Charges for Services	\$ 559,580	\$ 479,480	\$ 3,178	\$ 1,042,238
Other Operating Receipts	947	1,293	-	2,240
<i>Total Operating Cash Receipts</i>	<u>560,527</u>	<u>480,773</u>	<u>3,178</u>	<u>1,044,478</u>
Operating Cash Disbursements:				
Personal Services	43,697	65,651	-	109,348
Fringe Benefits	26,368	29,506	-	55,874
Contractual Services	218,426	246,317	-	464,743
Materials and Supplies	15,111	13,417	-	28,528
Capital Outlay	-	149,103	-	149,103
Other	-	-	185	185
<i>Total Operating Cash Disbursements</i>	<u>303,602</u>	<u>503,994</u>	<u>185</u>	<u>807,781</u>
<i>Operating Income/(Loss)</i>	<u>256,925</u>	<u>(23,221)</u>	<u>2,993</u>	<u>236,697</u>
Non-Operating Cash Receipts:				
Interest	119	117	-	236
Special Assessments	-	388,299	-	388,299
Proceeds from OWDA Loans	-	124,045	-	124,045
Judgements and Settlements	-	15,000	-	15,000
<i>Total Non-Operating Cash Receipts</i>	<u>119</u>	<u>527,461</u>	<u>-</u>	<u>527,580</u>
Non-Operating Cash Disbursements:				
Principal Payments	(62,969)	(174,678)	-	(237,647)
Interest and Fiscal Charges	(22,377)	(53,384)	-	(75,761)
<i>Total Non-Operating Cash Disbursements</i>	<u>(85,346)</u>	<u>(228,062)</u>	<u>-</u>	<u>(313,408)</u>
<i>Net Receipts Over/(Under) Disbursements</i>	171,698	276,178	2,993	450,869
Fund Cash Balance at Beginning of Year	634,099	670,257	15,295	1,319,651
Fund Cash Balance at End of Year	<u>\$ 805,797</u>	<u>\$ 946,435</u>	<u>\$ 18,288</u>	<u>\$ 1,770,520</u>

June 14, 2016

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 the fund cash balances, receipts and disbursements, and related notes of the Ayersville Water and Sewer District, Defiance County, Ohio (the District), as of and for the years ended December 31, 2015 and 2014, and the related notes to the financial statements, and have issued our report thereon dated June 14, 2016, wherein we noted the District followed financial reporting provisions Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D) 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 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 certain deficiencies in internal control over financial reporting, that we consider a material weakness and significant deficiency.

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 2015-001 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 finding 2015-002 described in the accompanying schedule of findings to be 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 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.

Medina, Ohio

Ayersville Water and Sewer District
Defiance County, Ohio
Schedule of Findings
For the Years Ended December 31, 2015 and 2014

Finding Number: 2015-001

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. Management and their contracted accountant made several reclassification adjustments from the reports generated from UAN in order to present financial statements for audit. Material audit adjustments were also made to the financial statements presented for audit.

Cause: Certain aspects of the internal controls over the accounting function are lacking. Because of the staff levels, segregation of duties are limited.

Effect: The deficiencies resulted in the following effects:

- 1) Sewer fund OWDA loan obligations were retired using resources from the water fund in 2015. Also in 2015, the UAN coding between principal and interest expenditure accounts was incorrect. Audit adjustments were recorded to the financial statements to correct these errors. USDA Rural Development Bonds ending balances did not agree to the annual USDA invoice. The USDA invoice indicates a lower ending balance than the amount disclosed.
- 2) Phase A Special Assessments collected and remitted by the County were improperly classified as Charges for Services rather than Special Assessments. Phase B Special Assessments collected by the District were improperly classified as Charges for Services rather than Special Assessments. Certified delinquent user charges collected by the County were improperly classified as Special Assessments rather than Charges for Services. Certified delinquent water user charges collected by the County were improperly receipted to the sewer fund. As a result, Special Assessments was understated and Charges for Services was overstated by \$173,542 and \$257,750 in 2015 and 2014, respectively. Audit adjustments were recorded to the financial statements to correct these errors.
- 3) Management was unable to provide evidence a May 2014 ACH deposit totaling \$7,468 was credited in UAN for receipts relating to customers who have elected the monthly ACH payment option. It was noted the deposit was credited to the District's bank account and customer receivable balances reported in the utility billing system were properly credited.
- 4) Interest earnings were not credited to UAN in a timely manner. The bank balances reported in UAN as part of the monthly cash reconciliation did not always agree to the actual bank statement balances, and were often different by several months of interest earnings. We further noted the reconciling items reported on the bank reconciliations throughout the audit period lacked sufficient supporting documentation to allow a reviewer to verify the validity of the reconciling item.

Ayersville Water and Sewer District
Defiance County, Ohio
Schedule of Findings (Continued)
For the Years Ended December 31, 2015 and 2014

Finding Number: 2015-001 (Continued)

5) As customer payments were received, payments that exceeded billed charges were credited entirely to the water fund. Once charges were subsequently billed, those overpayments were applied to water and sewer accounts receivable balances reported in the utility billing system; however, management does not have a process to allocate those payments properly to the water and sewer funds in UAN once the application of the overpayments occurs within the utility billing system. As a result, receipts were credited in UAN to the water fund that should have been credited to the sewer fund in the amounts of \$7,702 and \$24,394 in 2015 and 2014, respectively. Audit adjustments were recorded to the financial statements to correct these errors.

Recommendation: It is recommended the District continue their efforts to improve accounting procedures and segregation of duties regarding:

- 1) Proper coding of cash receipts and disbursements in UAN. The District could revise the way transactions are coded in UAN in an effort to eliminate the need for any reclassification adjustments in order to present financial statements for audit.
- 2) Bank Reconciliations; The District should ensure all actual transactions are recorded in the proper period and reconciling items be minimized. When reconciling items are necessary, the District should improve the quality of the documentation that supports the reconciling items.
- 3) Allocating overpayments to water and sewer funds. The District should implement a process where a report is printed from the utility billing system each month that indicates how cash receipts were applied between water and sewer charges and reconcile this report with cash receipts for the month credited to UAN between the water and sewer funds.

Management's Response: The District is working with its accounting consultant to put additional internal controls in place to provide stronger accounting procedures and oversight by the Board of Trustees.

Finding Number: 2015-002

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 security deposit balances.

Condition: The District lacks a detailed list of customer accounts with a security deposit balance.

Cause: The District does not perform regular reconciliations of security 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 security deposit balance is applied to the final amount owed.

Effect: There is a risk of misstatement of fund cash balances in the water, sewer and deposits funds.

Ayersville Water and Sewer District
Defiance County, Ohio
Schedule of Findings (Continued)
For the Years Ended December 31, 2015 and 2014

Finding Number: 2015-002 (Continued)

Recommendation: We recommend management review the existing security 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 security deposit balances reported in the utility billing system and update the system to reflect the actual amounts held on deposit.

Ayersville Water and Sewer District
Defiance County, Ohio
Schedule of Prior Audit Findings
For the Years Ended December 31, 2015 and 2014

Finding Number	Finding Summary	Fully Corrected?	Corrected, Significantly Different Corrective Action Taken or Finding No Longer Valid Explain
2013-001	Material Weakness – financial reporting	No	Repeated as finding 2015-001
2013-002	Significant Deficiency – lack of controls over customer account adjustments	Yes	Corrected
2013-003	Significant Deficiency – lack of supporting documentation and reconciliation for customer accounts with amounts held on deposit	No	Repeated as finding 2015-002
2013-004	Significant Deficiency – lack of written accounting procedures manual	Yes	Corrected

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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
AUGUST 2, 2016**