

Ayersville Water and Sewer District
Defiance County, Ohio

Regular Audit

January 1, 2008 through December 31, 2009
Fiscal Years Audited Under GAGAS: 2008 & 2009



Balestra, Harr & Scherer, CPAs, Inc.

Columbus, OH | Circleville, OH | Piketon, OH | Wheelersburg, OH | Ironton, OH

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Dave Yost • Auditor of State

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

We have reviewed the *Independence Auditor's Report* of the Ayersville Water and Sewer District, Defiance County, prepared by Balestra, Harr & Scherer, CPAs, Inc., for the audit period January 1, 2008 through December 31, 2009. 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

April 21, 2011

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AYERSVILLE WATER AND SEWER DISTRICT

Basic Financial Statements

For the Years Ended December 31, 2009 and 2008

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Independent Auditor's Report

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

We have audited the accompanying financial statements of the business-type activities of Ayersville Water and Sewer District, Defiance County, (the District) as of and for the years ended December 31, 2009 and 2008. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to reasonably assure whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

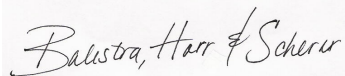
As described in Note 2, the accompanying financial statements and notes follow the cash basis of accounting. This is a comprehensive basis other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the business-type activities of the Ayersville Water and Sewer District, Defiance County, Ohio, as of December 31, 2009 and 2008, and the respective changes in cash basis financial position thereof for the years then ended in conformity with the accounting basis Note 2 describes.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 28, 2011, 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. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Governmental Auditing Standards*, and should be considered in assessing the results of our audit.

Board of Trustees
Ayersville Water and Sewer District
Independent Auditors' Report
Page 2

Management's Discussion and Analysis on pages 3 through 5 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquires of management regarding methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.



Balestra, Harr & Scherer, CPAs, Inc.

March 28, 2011

Ayersville Water and Sewer District
Management's Discussion and Analysis
For the Years Ended December 31, 2009 and 2008
Unaudited

This discussion and analysis of Ayersville Water and Sewer District's (the District's) financial performance provides an overall review of the District's financial activities for the years ended December 31, 2009 and 2008, 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 assets increased by \$58,072 (35.4%) in 2009 and \$21,227 (14.9%) in 2008.

The District's operating cash receipts increased by \$107,075 (20.3%) in 2009 and increased by \$6,186 (1.2%) in 2008. Operating cash disbursements increased by \$45,450 (9.6%) in 2009 and increased by \$537 (.1%) in 2008. Non-Operating cash receipts increased by \$624,871 in 2009 and \$455,975 in 2008 while non-operating cash disbursements increased by \$649,651 in 2009 and \$387,356 in 2008.

OVERVIEW OF BASIC FINANCIAL STATEMENTS

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

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

Basis of Accounting

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

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

Reporting Government's Most Significant Funds

Fund financial statements provide detailed information about the District's major funds – not the District as a whole. The District establishes separate funds to better manage its many activities and to help demonstrate that money that is restricted as to how it may be used is being spent for the intended purpose. The funds of the District are represented in one proprietary category.

Proprietary Funds – When the District charges customers for the services it provides, these services are reported in proprietary funds. When the services are provided to the general public, the activity is reported as an enterprise fund. Ayersville Water and Sewer District has three enterprise funds used for reporting purposes which are the water, sewer, and deposits funds.

Ayersville Water and Sewer District
Management's Discussion and Analysis
For the Years Ended December 31, 2009 and 2008
Unaudited

AYERSVILLE WATER AND SEWER DISTRICT AS A WHOLE

Table 1 on the following page provides a summary of the District's net assets for 2009 and 2008 compared to 2007

	<u>2009</u>	<u>2008</u>	<u>Change Amount</u>	<u>2007</u>	<u>Change Amount</u>
Assets					
Cash and Cash Equivalents	\$ 222,172	\$ 164,100	\$ 58,072	\$ 142,873	\$ 21,227
Total Assets	<u>\$ 222,172</u>	<u>\$ 164,100</u>	<u>\$ 58,072</u>	<u>\$ 142,873</u>	<u>\$ 21,227</u>
Net Assets					
Unrestricted	\$ 222,172	\$ 164,100	\$ 58,072	\$ 142,873	\$ 21,227
Total Net Assets	<u>\$ 222,172</u>	<u>\$ 164,100</u>	<u>\$ 58,072</u>	<u>\$ 142,873</u>	<u>\$ 21,227</u>

on a cash basis:

Net assets of the District increased \$58,072 and \$21,227 during 2009 and 2008, respectively, due to the reasons explained in the explanations for changes after Table 2.

Table 2 reflects the changes in net assets in 2009, 2008 and 2007.

Table 2
Changes in Net Assets

	Enterprise Funds				
	<u>2009</u>	<u>2008</u>	<u>Changes</u>	<u>2007</u>	<u>Changes</u>
Receipts					
Operating Receipts:					
Charges for Services	\$ 620,891	\$ 516,163	\$ 104,728	\$ 515,356	\$ 807
Miscellaneous	13,917	11,570	2,347	6,191	5,379
Total Operating Receipts	<u>634,808</u>	<u>527,733</u>	<u>107,075</u>	<u>521,547</u>	<u>6,186</u>
Non-Operating Receipts:					
Intergovernmental Revenue	288,875	-	288,875	3,744	(3,744)
Special Assessments	302,266	284,023	18,243	124,440	159,583
Proceeds from OWDA Loans	686,878	368,593	318,285	63,145	305,448
Interest	496	1,028	(532)	6,340	(5,312)
Total Non-Operating Receipts	<u>1,278,515</u>	<u>653,644</u>	<u>624,871</u>	<u>197,669</u>	<u>455,975</u>
Total Receipts	<u>1,913,323</u>	<u>1,181,377</u>	<u>731,946</u>	<u>719,216</u>	<u>462,161</u>
Disbursements					
Operating Disbursements:					
Personal Services	97,338	86,149	11,189	88,647	(2,498)
Employee Fringe Benefits	40,260	34,700	5,560	29,374	5,326
Contractual Services	354,438	339,976	14,462	340,145	(169)
Materials and Supplies	23,837	9,452	14,385	9,735	(283)
Other	1,361	1,507	(146)	3,346	(1,839)
Total Operating Disbursements	<u>517,234</u>	<u>471,784</u>	<u>45,450</u>	<u>471,247</u>	<u>537</u>
Non-Operating Disbursements:					
Capital Outlay	449,941	82,708	367,233	-	82,708
Principal Payments	785,120	473,135	311,985	176,291	296,844
Interest and Fiscal Charges	102,956	132,523	(29,567)	124,719	7,804
Total Non-Operating Disbursements	<u>1,338,017</u>	<u>688,366</u>	<u>649,651</u>	<u>301,010</u>	<u>387,356</u>
Total Disbursements	<u>1,855,251</u>	<u>1,160,150</u>	<u>695,101</u>	<u>772,257</u>	<u>387,893</u>
Change in Net Assets	58,072	21,227	36,845	(53,041)	74,268
Net Assets, January 1	164,100	142,873	21,227	195,914	(53,041)
Net Assets, December 31	<u>\$ 222,172</u>	<u>\$ 164,100</u>	<u>\$ 58,072</u>	<u>\$ 142,873</u>	<u>\$ 21,227</u>

Ayersville Water and Sewer District
Management's Discussion and Analysis
For the Years Ended December 31, 2009 and 2008
Unaudited

For 2009, operating cash receipts increased due to a rate increase. Operating cash disbursements increased \$45,450 from the prior year. There were increases of salaries and benefits in the Sewer Fund of almost \$17,000 for increased activity related to the construction. There were also increases in contractual services and materials in supplies in both the Water and Sewer Funds. Non-operating cash receipts increased due to several factors including a grant for loan forgiveness from the EPA and additional proceeds from OWDA to finance the ongoing sewer construction projects. Non-operating cash disbursements increased due to additional OWDA loan payments in the sewer fund to pay off portions of existing loans and additional capital outlay for the ongoing sewer construction projects.

For 2008, operating cash receipts increased remained consistent with the prior year. Operating cash disbursements remained relatively consistent with the prior year. Non-operating cash receipts increased due to additional special assessments for sewer projects and due to additional OWDA loan proceeds for sewer construction projects. Non-operating cash disbursements increased due to additional OWDA loan payments in the sewer fund to pay off portions of existing planning loans and additional capital outlay for the ongoing sewer construction projects.

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 \$449,941 in 2009 and \$82,708 in 2008.

Debt

At December 31, 2009, the District's outstanding debt included \$1,305,000 in United States Department of Agriculture rural development bonds issued for construction of the District's sanitary sewer project, \$402,657 in Ohio Water Development Authority (OWDA) loans for sewer related projects and \$577,424 in Ohio Water Development Authority (OWDA) loans for water related projects. For further information regarding the District's debt, refer to Note 7 to the basic financial statements.

CURRENT ISSUES

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

CONTACTING THE AYERSVILLE WATER AND SEWER DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, investors, and creditors with a general overview of the District's finances and to reflect the District's accountability for the monies it receives. Questions concerning any of the information in this report or requests for additional information should be directed to Hope Okuly, Clerk, Ayersville Water and Sewer District, 13961 Fruit Ridge Rd, Defiance, OH 43512.

**AYERSVILLE WATER AND SEWER DISTRICT
DEFIANCE COUNTY**

*Statement of Fund Net Assets - Cash Basis
Proprietary Funds
December 31, 2009*

	Enterprise Funds			Total
	Water Fund	Sewer Fund	Deposits Fund	Enterprise Funds
Assets				
Equity in Pooled Cash and Cash Equivalents	\$ 63,098	\$ 149,716	\$ 9,358	\$ 222,172
<i>Total Assets</i>	63,098	149,716	9,358	222,172
Net Assets				
Unrestricted	\$ 63,098	\$ 149,716	\$ 9,358	\$ 222,172

See accompanying notes to the basic financial statements.

**AYERSVILLE WATER AND SEWER DISTRICT
DEFIANCE COUNTY**

*Statement of Cash Receipts, Disbursements and Changes in Fund Net Assets - Cash Basis
Proprietary Funds
December 31, 2009*

	Enterprise Funds			Total Enterprise Funds
	Water Fund	Sewer Fund	Deposits Fund	
Operating Receipts				
Charges for Services	\$ 420,715	\$ 196,476	\$ 3,700	\$ 620,891
Other Operating Receipts	3,602	10,315	-	13,917
<i>Total Operating Receipts</i>	424,317	206,791	3,700	634,808
Operating Disbursements				
Personal Services	41,642	55,696	-	97,338
Fringe Benefits	26,806	13,454	-	40,260
Contractual Services	214,064	140,374	-	354,438
Materials and Supplies	15,718	8,119	-	23,837
Other	-	-	1,361	1,361
<i>Total Operating Disbursements</i>	298,230	217,643	1,361	517,234
<i>Operating Income (Loss)</i>	126,087	(10,852)	2,339	117,574
Non-Operating Receipts (Disbursements)				
Interest	484	12	-	496
Special Assessments	-	302,266	-	302,266
Intergovernmental Revenue	-	288,875	-	288,875
Proceeds from OWDA Loans	-	686,878	-	686,878
Capital Outlay	-	(449,941)	-	(449,941)
Principal Payments	(57,106)	(728,014)	-	(785,120)
Interest and Fiscal Charges	(38,789)	(64,167)	-	(102,956)
<i>Total Non-Operating Receipts (Disbursements)</i>	(95,411)	35,909	-	(59,502)
<i>Change in Net Assets</i>	30,676	25,057	2,339	58,072
Net Assets Beginning of Year	32,422	124,659	7,019	164,100
Net Assets End of Year	<u>\$ 63,098</u>	<u>\$ 149,716</u>	<u>\$ 9,358</u>	<u>\$ 222,172</u>

See accompanying notes to the basic financial statements.

**AYERSVILLE WATER AND SEWER DISTRICT
DEFIANCE COUNTY**

*Statement of Fund Net Assets - Cash Basis
Proprietary Funds
December 31, 2008*

	Enterprise Funds			Total Enterprise Funds
	Water Fund	Sewer Fund	Deposits Fund	
Assets				
Equity in Pooled Cash and Cash Equivalents	\$ 32,422	\$ 124,659	\$ 7,019	\$ 164,100
<i>Total Assets</i>	32,422	124,659	7,019	164,100
Net Assets				
Unrestricted	\$ 32,422	\$ 124,659	\$ 7,019	\$ 164,100

See accompanying notes to the basic financial statements.

**AYERSVILLE WATER AND SEWER DISTRICT
DEFIANCE COUNTY**

*Statement of Cash Receipts, Disbursements and Changes in Fund Net Assets - Cash Basis
Proprietary Funds
December 31, 2008*

	Enterprise Funds			Total Enterprise Funds
	Water Fund	Sewer Fund	Deposits Fund	
Operating Receipts				
Charges for Services	\$ 321,014	\$ 192,469	\$ 2,680	\$ 516,163
Other Operating Receipts	1,070	10,500	-	11,570
<i>Total Operating Receipts</i>	322,084	202,969	2,680	527,733
Operating Disbursements				
Personal Services	44,268	41,881	-	86,149
Fringe Benefits	24,407	10,293	-	34,700
Contractual Services	209,045	130,931	-	339,976
Materials and Supplies	6,775	2,677	-	9,452
Other	-	-	1,507	1,507
<i>Total Operating Disbursements</i>	284,495	185,782	1,507	471,784
<i>Operating Income (Loss)</i>	37,589	17,187	1,173	55,949
Non-Operating Receipts (Disbursements)				
Interest	745	283	-	1,028
Special Assessments	-	284,023	-	284,023
Proceeds from OWDA Loans	-	368,593	-	368,593
Capital Outlay	-	(82,708)	-	(82,708)
Principal Payments	(53,988)	(419,147)	-	(473,135)
Interest and Fiscal Charges	(41,909)	(90,614)	-	(132,523)
<i>Total Non-Operating Receipts (Disbursements)</i>	(95,152)	60,430	-	(34,722)
<i>Change in Net Assets</i>	(57,563)	77,617	1,173	21,227
Net Assets Beginning of Year - As Restated	89,985	47,042	5,846	142,873
Net Assets End of Year	<u>\$ 32,422</u>	<u>\$ 124,659</u>	<u>\$ 7,019</u>	<u>\$ 164,100</u>

See accompanying notes to the basic financial statements.

Ayersville Water and Sewer District
Defiance County, Ohio
Notes to the Basic Financial Statements
For the Years Ended December 31, 2009 and 2008

Note 1 – Reporting Entity

Ayersville Water and Sewer District, Defiance, Ohio (the District), is a body established to exercise the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The District is directed by a seven-member Board appointed by the Highland Township Board of Trustees for four year terms. The Board President is elected yearly by the other Board Members.

The reporting entity is comprised of the primary government.

A. Primary Government

The primary government consists of all funds, departments, boards, and agencies that are not legally separate from the District. The District provides water and sewer services to residents of the District.

B. Component Units

Component units are legally separate organizations for which the District is financially accountable. The District is financially accountable for an organization if the District appoints a voting majority of the organization's governing board and (1) the District is able to significantly influence the programs or services performed or provided by the organization; or (2) the District is legally entitled to or can otherwise access the organization's resources; the District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide support to, the organization; or the District is obligated for the debt of the organization. The District is also financially accountable for any organizations that are fiscally dependent on the District in that the District approves their budget, the issuance of their debt or the levying of their taxes. Component units also include legally separate, tax-exempt entities whose resources are for the direct benefit of the District, are accessible to the District and are significant in amount to the District. Based on these criteria, the District has no component units.

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

Note 2 – Summary of Significant Accounting Policies

As discussed further in Note 2.C, these financial statements are presented on a cash basis of accounting. This cash basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP). Generally accepted accounting principles include all relevant Governmental Accounting Standards Board (GASB) pronouncements, which have been applied to the extent they are applicable to the cash basis of accounting. In the fund financial statements for the proprietary funds, Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, have been applied, to the extent they are applicable to the cash basis of accounting, unless those pronouncements conflict with or contradict GASB pronouncements, in which case GASB prevails. The District does not apply FASB statements issued after November 30, 1989, to its business-type activities and to its enterprise funds. Following are the more significant of Ayersville Water and Sewer District's accounting policies.

A. Basis of Presentation

The District's basic financial statements consist of a statement of fund net assets and a statement of cash receipts, disbursements, and changes in fund net assets.

Note 2 – Summary of Significant Accounting Policies (continued)

Fund Financial Statements

During the year, the District segregates transactions related to certain District activities in separate funds to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the District at this more detailed level. The focus of enterprise fund financial statements is on major funds. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column.

Proprietary fund statements distinguish operating transactions from nonoperating transactions. Operating receipts generally result from exchange transactions such as charges for services directly relating to the funds' principal services. Operating disbursements include costs of sales and services and administrative costs. The fund statements report all other receipts and disbursements as non-operating.

B. Fund Accounting

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

Proprietary Funds

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

Enterprise Funds - Enterprise funds may be used to account for any activity for which a fee is charged to external users for goods or services. The District's major enterprise funds are the water, sewer, and the deposit funds.

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

Sewer Fund - The sewer fund accounts for the provision of sanitary sewer services to the residents and commercial users within the District. The District maintains several funds within their records to account for various activities for sewer purposes. Such funds have been combined for reporting purposes.

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

Note 2 – Summary of Significant Accounting Policies (continued)

C. Basis of Accounting

The District's financial statements are prepared using the cash basis of accounting. Receipts are recorded in the District's financial records and reported in the financial statements when cash is received rather than when earned and disbursements are recorded when cash is paid rather than when a liability is incurred.

As a result of the use of this cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities) are not recorded in these financial statements.

D. Budgetary Process

All funds are legally required to be budgeted and appropriated. The major documents prepared are the certificate of estimated resources, and the appropriations resolution, all of which are prepared on the budgetary basis of accounting. The certificate of estimated resources establishes a limit on the amount the District Board may appropriate.

The appropriations resolution is the District Boards' authorization to spend resources and sets limits on cash disbursements plus encumbrances at the level of control selected by the District Board. The legal level of control has been established at the fund/function/object level for all funds.

The certificate of estimated resources may be amended during the year if projected increases or decreases in receipts are identified by the District Secretary/Treasurer.

The appropriations resolution is subject to amendment throughout the year with the restriction that appropriations cannot exceed estimated resources.

E. Cash and Investments

To improve cash management, cash received by the District is pooled and invested. Individual fund integrity is maintained through District records. Interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents".

Investments of the cash management pool and investments with an original maturity of three months or less at the time of purchase are presented on the financial statements as cash equivalents. Investments with an initial maturity of more than three months that were not purchased from the pool are reported as investments.

Investments are reported as assets. Accordingly, purchases of investments are not recorded as disbursements, and sales of investments are not recorded as receipts. Gains or losses at the time of sale are recorded as receipts or negative receipts (contra revenue), respectively.

During 2009 and 2008, the District invested in nonnegotiable certificates of deposit. The nonnegotiable certificates of deposit are reported at cost.

F. Inventory and Prepaid Items

The District reports disbursements for inventories and prepaid items when paid. These items are not reflected as assets in the accompanying financial statements.

Note 2 – Summary of Significant Accounting Policies (continued)

G. Capital Assets

Acquisitions of property, plant and equipment are recorded as disbursements when paid. These items are not reflected as assets in the accompanying financial statements.

H. Accumulated Leave

In certain circumstances, such as upon leaving employment or retirement, employees are entitled to cash payments for unused leave. Unpaid leave is not reflected as a liability under the District's modified cash basis of accounting.

I. Employer Contributions to Cost-Sharing Pension Plans

The District recognizes the disbursement for their employer contributions to cost-sharing pension plans when they are paid. As described in Notes 5 and 6, the employer contributions include portions for pension benefits and for postretirement health care benefits.

J. Long-Term Obligations

The District's cash basis financial statements do not report liabilities for bonds or other long-term obligations. Proceeds of debt are reported when the cash is received and principal and interest payments are reported when paid. Since recording a capital asset when entering into a capital lease is not the result of a cash transaction, neither another financing source nor capital outlay expenditure are reported at inception.

K. Net Assets

Net assets are reported as restricted when there are limitations imposed on their use either through enabling legislation or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments.

The District's policy is to first apply restricted resources when an obligation is incurred for purposes for which both restricted and unrestricted net assets are available. There are no restricted net assets.

Note 3 – Deposits and Investments

Monies held by the District are classified by State statute into three categories.

Active monies are public monies determined to be necessary to meet current demands upon the District treasury. Active monies must be maintained either as cash in the District treasury, in commercial accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

Inactive deposits are public deposits that Board has identified as not required for use within the current five year period of designation depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.

Note 3 – Deposits and Investments (continued)

Interim deposits are deposits of interim monies. Interim monies are those monies which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit or by savings or deposit accounts, including passbook accounts.

Interim monies may be deposited or invested in the following securities:

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

Note 3 – Deposits and Investments (continued)

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

The carrying amounts of the District’s deposits as of December 31, 2009 and 2008 were \$222,172 and \$164,100, respectively. The bank balances of the District’s deposits as of December 31, 2009 and 2008 were \$275,472 and \$172,688, respectively. All of the District’s deposits were either covered by FDIC balances or collateral pools in the manner designated in the following paragraph.

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

At year end, the District had \$200 in undeposited cash on hand which is included as part of “Equity in Pooled Cash and Cash Equivalents”.

Note 4 – Risk Management

The District has obtained commercial insurance for the following risks:

- Comprehensive property and general liability;
- Vehicles; and
- Wrongful acts.

There has been no change in coverage and claims have not exceeded coverage in the past three years.

Note 5 – Defined Benefit Pension Plans

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

The Traditional Pension Plan (TP) – a cost-sharing multiple-employer defined benefit pension plan.

The Member-Directed Plan (MD) – a defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20% per year). Under the Member-Directed Plan members accumulate retirement assets equal to the value of member and (vested) employer contributions plus any investment earnings.

The Combined Plan (CO) – a cost-sharing multiple-employer defined benefit pension plan. Under the Combined Plan, OPERS invests employer contributions to provide a formula retirement benefit similar in nature to the Traditional Pension Plan benefit. Member contributions, the investment of which is self-directed by the members, accumulate retirement assets in a manner similar to the Member-Directed Plan.

- A. OPERS provides retirement, disability, and survivor and death benefits and annual cost-of-living adjustments to qualifying members of the Traditional Pension and Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits.
- B. Authority to establish and amend benefits is provided in Chapter 145 of the Ohio Revised Code.

Note 5 – Defined Benefit Pension Plans (continued)

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

The member contribution rates were 10.0% for 2009, 2008 and 2007 for the District. The employer contribution rates were 14.0% for 2009, 2008 and 2007 of covered payroll for the District.

The District's required contributions for pension obligations to the traditional and combined plans for the years ended December 31, 2009, 2008, and 2007 were \$13,013, \$11,870, and \$11,810, respectively; 100 percent has been contributed for 2009, 2008, and 2007.

Note 6 – Postemployment Benefits

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

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

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

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

OPERS issues a stand-alone financial report. Interested parties may obtain a copy by writing OPERS, Attention: Finance Director, 277 East Town Street, Columbus, Ohio 43215-4642, or by calling 614-222-5601 or 800-222-7377.

- B. The Ohio Revised Code provides the statutory authority requiring public employers to fund post-retirement health care through their contributions to OPERS. A portion of each employer's contribution to OPERS is set aside for the funding of post retirement health care benefits.
- C. Employer's contributions are expressed as a percentage of the covered payroll of active members. In 2009, 2008, and 2007, the District contributed at 14.0% of covered payroll. The Ohio Revised Code currently limits the employer contribution rate not to exceed 14.0% of covered payroll. Active members do not make contributions to the OPEB Plan.

Ayersville Water and Sewer District
Defiance County, Ohio
Notes to the Basic Financial Statements
For the Years Ended December 31, 2009 and 2008

Note 6 – Postemployment Benefits (continued)

- D. OPERS’ Post Employment Health Care plan was established under, and is administrated in accordance with, Internal Revenue Code 401(h). Each year, the OPERS Retirement Board determines the portion of the employer contribution rate that will be set aside for funding of post employment health care benefits. For 2009, the employer contributions allocated to the health care plan from January 1 through March 31, 2009 and April 1 through December 31, 2009 were 7.0% and 5.5%, respectively. For 2008, the employer contributions allocated to the health care plan were 7.0% of covered payroll. For 2007, the employer contributions allocated to healthcare plan from January 1, 2007 through June 30, 2007 and July 1, 2007 through December 31, 2007 was 5.0% and 6.0%, respectively. The OPERS Retirement Board is also authorized to establish rules for the payment of a portion of the health care benefits provided, by the retiree or their surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected.
- E. The employer contributions that were used to fund post-employment benefits were \$19,543 for 2009, \$20,369 for 2008 and \$22,256 for 2007.
- F. The Health Care Preservation Plan (HCPP) adopted by the OPERS Retirement Board on September 9, 2004, was effective January 1, 2007. Member and employer contribution rates increased on January 1 of each year from 2006 to 2008. These rate increases allowed additional funds to be allocated to the health care plan.

Note 7 - Debt

The District’s long-term debt activity for the year ended December 31, 2009, was as follows:

	Interest Rate	Original Issue Amount	Balance December 31, 2008	Additions	Deletions	Balance December 31, 2009	Due Within One Year
<u>Sewer Fund:</u>							
USDA Rural Develop- ment Bonds	4.75%		\$ 1,380,200	\$ -	\$ 75,200	\$ 1,305,000	\$ 78,700
OWDA Loan # 4844	4.95%	387,844	368,593	19,250	387,843	-	-
OWDA Loan # 5204	1.48%	785,914	-	402,657	-	\$ 402,657	-
OWDA Loan # 5239	0.00%		-	264,971	264,971	-	-
Total Sewer Fund			\$ 1,748,793	\$ 686,878	\$ 728,014	\$ 1,707,657	\$ 78,700
<u>Water Fund</u>							
OWDA Loan # 1470	7.50%	129,634	74,181	-	6,066	68,115	6,521
OWDA Loan # 1473	7.03%	587,190	366,320	-	24,771	341,549	26,512
OWDA Loan # 2610	2.00%	204,066	96,643	-	4,670	91,973	10,758
OWDA Loan # 2611	2.00%	25,815	12,485	-	10,547	1,938	1,403
OWDA Loan # 3042	6.24%	117,012	75,211	-	1,362	73,849	4,961
OWDA Loan # 3058	6.16%	98,890	9,691	-	9,691	-	-
Total Water Fund			\$ 634,531	\$ -	\$ 57,107	\$ 577,424	\$ 50,155
Total Enterprise Funds			\$ 2,383,324	\$ 686,878	\$ 785,121	\$ 2,285,081	\$ 128,855

Ayersville Water and Sewer District
Defiance County, Ohio
Notes to the Basic Financial Statements
For the Years Ended December 31, 2009 and 2008

Note 7 – Debt (continued)

The District's long-term debt activity for the year ended December 31, 2008, was as follows:

	Interest Rate	Original Issue Amount	Balance December 31, 2007	Additions	Deletions	Balance December 31, 2008	Due Within One Year
<u>Sewer Fund:</u>							
USDA Rural Development Bonds	4.75%		\$ 1,440,983	\$ -	\$ 60,783	\$ 1,380,200	\$ 75,200
OWDA Loan # 3609	3.20%	395,104	346,522	-	346,522	-	-
OWDA Loan # 3988	3.20%	23,841	11,842	-	11,842	\$ -	-
OWDA Loan # 4844	4.95%	387,844	-	368,593	-	368,593	-
Total Sewer Fund			\$ 1,799,347	\$ 368,593	\$ 419,147	\$ 1,748,793	\$ 75,200
<u>Water Fund</u>							
OWDA Loan # 1470	7.50%	129,634	79,824	-	5,643	74,181	6,066
OWDA Loan # 1473	7.03%	587,190	389,464	-	23,144	366,320	24,771
OWDA Loan # 2610	2.00%	204,066	106,983	-	10,340	96,643	10,547
OWDA Loan # 2611	2.00%	25,815	13,820	-	1,335	12,485	1,362
OWDA Loan # 3042	6.24%	117,012	79,607	-	4,396	75,211	4,670
OWDA Loan # 3058	6.16%	98,890	18,821	-	9,130	9,691	9,691
Total Water Fund			\$ 688,519	\$ -	\$ 53,988	\$ 634,531	\$ 57,107
Total Enterprise Funds			\$ 2,487,866	\$ 368,593	\$ 473,135	\$ 2,383,324	\$ 132,307

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

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

The District has pledged future water and sewer customer revenues, net of specified operating expenses, to repay \$1,849,631 in water and sewer revenue bonds issued from 1991 to 2003 that are still outstanding. Proceeds from the bonds provided financing for the construction of the new waterlines and the Sanitary Sewer Project. The bonds are payable solely from water and sewer customer net revenues and are payable through 2020. Annual principal and interest payments remaining on the bonds are expected to require approximately 322 percent of net revenues. The total principal and interest remaining to be paid on the bonds is \$777,018.

Ayersville Water and Sewer District
Defiance County, Ohio
Notes to the Basic Financial Statements
For the Years Ended December 31, 2009 and 2008

Note 7 – Debt (continued)

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

Year	USDA Bonds		OWDA Loans	
	Principal	Interest	Principal	Interest
2010	78,700	\$ 61,064	50,155	35,397
2011	82,400	57,283	52,057	32,486
2012	86,400	53,321	54,589	29,407
2013	90,400	49,170	57,860	26,136
2014	94,800	44,826	61,350	22,646
2015-2019	546,200	151,310	295,355	53,245
2020-2022	326,100	23,604	6,058	277
Total	<u>1,305,000</u>	<u>440,578</u>	<u>577,424</u>	<u>199,594</u>

* OWDA loan #5204 is still open as of December 31, 2009 and no amortization schedules have been established for this loan.

The OWDA loan is for costs relating to the design of the District’s Sanitary Sewer Project. The design cost related to this project was not completed at December 31, 2009, and therefore this loan has not been finalized at December 31, 2009. The balance on this loan was \$402,657 at December 31, 2009. The District anticipates drawing additional funds from this loan in the future if the design and engineering cost of the sanitary sewer is completed.

Note 8 – Budgetary Activity

Budgetary activity, which is accounted for on the cash basis of accounting, is as following for the years ended December 31, 2009 and 2008:

2009 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
Water Operating	\$373,115	\$424,801	\$51,686
Sewer Operating	1,484,823	1,484,822	(1)
Deposits Fund	-	3,700	3,700
Total	<u>\$1,857,938</u>	<u>\$1,913,323</u>	<u>\$55,385</u>

2009 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
Water Operating	\$412,531	\$394,125	\$18,406
Sewer Operating	1,222,055	1,459,765	(237,710)
Deposits Fund	-	1,361	(1,361)
Total	<u>\$1,634,586</u>	<u>\$1,855,251</u>	<u>(\$220,665)</u>

Ayersville Water and Sewer District
 Defiance County, Ohio
 Notes to the Basic Financial Statements
 For the Years Ended December 31, 2009 and 2008

Note 8 – Budgetary Activity (Continued)

2008 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
Water Operating	\$323,715	\$322,829	(\$886)
Sewer Operating	787,238	855,868	68,630
Deposits Fund	-	2,680	2,680
Total	\$1,110,953	\$1,181,377	\$70,424

2008 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
Water Operating	\$418,736	\$380,392	\$38,344
Sewer Operating	837,348	778,251	59,097
Deposits Fund	-	1,507	(1,507)
Total	\$1,256,084	\$1,160,150	\$95,934

Contrary to Ohio Revised Code 5705.41(B) the District had expenditures in excess of appropriations in the deposit and sewer operating funds for 2009, and the deposit fund for 2008.

Contrary to Ohio Revised Code 5705.39 the District had appropriations greater than estimated resources by an insignificant amount in the water fund for 2009 and 2008.

Note 9 – Restatement

Begin balances was restated due to Sewer Capital Projects Fund being reclassified to the Sewer Operating Fund.

	Sewer Capital Projects Fund	Sewer Operating Fund
Balance as of December 31, 2007	\$16,905	\$30,137
Fund Reclassification	(16,905)	16,905
Total	\$-	\$47,042



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

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

We have audited the financial statements of the business-type activities of the Ayersville Water and Sewer District, Defiance County, Ohio (the District), as of and for the years ended December 31, 2009 and 2008, and have issued our report thereon dated March 28, 2011, wherein we indicated that the District follows the cash basis of accounting rather than accounting principles generally accepted in the United States of America. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. Therefore, we cannot assure that we have identified all deficiencies, significant deficiencies or material weaknesses. However, as described in the accompanying schedule of findings we identified certain deficiencies in internal control over financial reporting, that we consider material weaknesses.

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 deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and timely corrected. We consider findings 2009-01 and 2009-02 described in the accompanying schedule of findings to be material weaknesses.

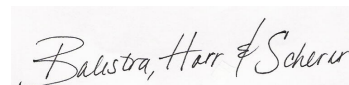
The District's responses to the findings identified in our audit are described in the accompanying schedule of findings. We did not audit the District's responses and, accordingly, we express no opinion on them.

Compliance and Other Matters

As part of reasonably assuring whether the District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed an instance of noncompliance or other matters we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2009-003.

The District's response to the finding identified in our audit is described in the accompanying schedule of findings. We did not audit the District's response and, accordingly, we express no opinion on it.

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



Balestra, Harr & Scherer, CPAs, Inc.
March 28, 2011

AYERSVILLE WATER AND SEWER DISTRICT
SCHEDULE OF FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2009 AND 2008

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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FINDING NUMBER 2009-001

Bank Reconciliations – Material Weakness

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

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

Client Response

The District chose not to respond to this issue.

FINDING NUMBER 2009-002

Recording of Transactions - Material Weakness

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

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

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

Client Response

The District chose not to respond to this issue.

FINDING NUMBER 2009-003

Non-Compliance Citation

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

Expenditures in the deposit and sewer funds exceeded appropriations in 2009 and the deposit fund in 2008.

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

Client Response

The District chose not to respond to this issue.

**AYERSVILLE WATER AND SEWER DISTRICT
DEFIANCE COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2009 AND 2008**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain:
2008-001	A material weakness was issued for inaccurate bank reconciliations.	No	Reissued as Finding Number 2009-001
2008-002	A material weakness was issued for inaccurate financial reporting	No	Reissued as Finding Number 2009-002
2008-003	A noncompliance citation was issued for Ohio Revised Code 5705.41(B) for disbursements exceeding appropriations.	No	Reissued as Finding Number 2009-003

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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
MAY 5, 2011**