

FINANCIAL STATEMENTS AND AUDITOR'S REPORTS

Le-Ax Water District

For the Years Ended December 31, 2002 and 2001

William Kenneth Yoho II
Certified Public Accountant

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**Auditor of State
Betty Montgomery**

Board of Directors
Le-Ax Regional Water District
The Plains, Ohio

We have reviewed the Independent Auditor's Report of the Le-Ax Regional Water District, Athens County, prepared by William Kenneth Yoho II, for the audit period January 1, 2001 through December 31, 2002. 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 Le-Ax Regional Water District is responsible for compliance with these laws and regulations.

Betty Montgomery

BETTY MONTGOMERY
Auditor of State

August 29, 2003

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Le-Ax Water District
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Le-Ax Water District
 Elected Officials and Administrative Personnel
 For the Years Ended December 31, 2002 and 2001

<u>ELECTED OFFICIAL</u>	<u>TITLE</u>	<u>TERM EXPIRES</u>
W. Richard Shaw	President	2006
Bernard Grueser	Vice-president	2003
M. Scott Nisley	Secretary/Treasurer	2007
David Perry	Member	2004
Keith Scott	Member	2005

Legal Counsel

Shostak Law Office
 Joseph B. Yanity, Attorney at Law
 18 W. State St, PO Box 748
 Athens, OH 45701

Legal Counsel

Benesch, Friedlander, Coplan & Aronoff, LLP
 Orla E. Collier, Attorney at Law
 88 E. Broad Steet
 Columbus, OH 43215

<u>ADMINISTRATIVE PERSONNEL</u>	<u>TITLE</u>	<u>CONTRACT PERIOD</u>
John W. Collins	General Manager	Continuing
Betty L. Clark	Financial/Clerical	Continuing
Linda G. Nelson	Financial/Clerical	Continuing

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WILLIAM KENNETH YOHO II

CERTIFIED PUBLIC ACCOUNTANT

INDEPENDENT AUDITOR'S REPORT

Le-Ax Water District of Athens County
6000 Industrial Drive, PO Box 97
The Plains, Ohio 45780

To the Board of Directors:

I have audited the accompanying financial statements of Le-Ax Water District, Athens County, Ohio, (the District) as of and for the years ended December 31, 2002 and 2001. These financial statements are the responsibility of the District's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States 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 I plan and perform the audit to obtain reasonable assurance about 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. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Le-Ax Water District as of December 31, 2002 and 2001, and the results of its operations and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States.

In accordance with *Government Auditing Standards*, I have also issued a report dated June 8, 2003, on my consideration of the District's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of my audit.

William Kenneth Yoho II
Certified Public Accountant
June 8, 2003

Le-Ax Water District
 Statements of Financial Position
 December 31, 2002 and 2001

	<u>2002</u>	<u>2001</u>
ASSETS		
ASSETS:		
Cash and Cash Equivalents	\$ 2,597,089	\$ 2,406,104
Accounts Receivable - Water Billings	238,546	197,435
Inventories	91,711	106,343
Prepaid Expenses	18,374	8,210
Fixed Assets (net of accumulated depreciation)	14,169,593	14,313,179
Organizational Expense (net of accumulated amortization)	43,369	47,571
Easements	<u>10,509</u>	<u>10,509</u>
TOTAL ASSETS	<u>\$ 17,169,190</u>	<u>\$ 17,089,351</u>

LIABILITIES AND FUND EQUITY

LIABILITIES:		
Accounts Payable	\$ 47,152	\$ 89,156
Accrued Wages	3,200	1,514
Compensated Absences Payable	80,711	77,050
Accrued Payroll Deductions	24,207	16,903
Accrued Interest Payable	307,115	310,290
OWDA Mortgage Revenue Bonds	915,967	969,976
USDA/RD Revenue Bonds	<u>6,555,427</u>	<u>6,632,401</u>
TOTAL LIABILITIES	<u>7,933,779</u>	<u>8,097,290</u>
FUND EQUITY:		
Contributed Capital	7,776,229	7,776,229
Retained Earnings	<u>1,459,182</u>	<u>1,215,832</u>
TOTAL FUND EQUITY	<u>9,235,411</u>	<u>8,992,061</u>
TOTAL LIABILITIES AND FUND EQUITY	<u>\$ 17,169,190</u>	<u>\$ 17,089,351</u>

Refer both to the auditor's reports and the notes to the financial statements.

Le-Ax Water District
 Statements of Revenues, Expenses, and Changes in Retained Earnings
 For the Years Ended December 31, 2002 and 2001

	<u>2002</u>	<u>2001</u>
OPERATING REVENUES:		
Charges for Services	\$ <u>2,298,244</u>	\$ <u>2,170,383</u>
 Total Operating Revenues	 <u>2,298,244</u>	 <u>2,170,383</u>
 OPERATING EXPENSES:		
Plant Expense	128,643	125,151
Office Expense	50,768	42,899
Employee Expense	801,632	749,807
Professional Services	68,700	71,097
Utilities	158,425	158,174
Repairs and Maintenance	167,873	141,716
Vehicle Expense	27,759	29,177
Depreciation and Amortization	549,168	535,490
Miscellaneous	<u>17,547</u>	<u>14,140</u>
 Total Operating Expenses	 <u>1,970,515</u>	 <u>1,867,651</u>
 Operating Income (Loss)	 <u>327,729</u>	 <u>302,732</u>
 NON-OPERATING REVENUES AND EXPENSES:		
Interest Income	80,273	96,245
Interest Expense	(314,683)	(319,193)
Miscellaneous Income	<u>32,467</u>	<u>43,669</u>
 Total Non-Operating Revenues and Expenses	 <u>(201,943)</u>	 <u>(179,279)</u>
 Net Income (Loss) Before Contributions	 125,786	 123,453
 Capital Contributions	 <u>117,564</u>	 <u>141,320</u>
 Net Income (Loss) for the Year	 243,350	 264,773
 Retained Earnings, Beginning of Year	 <u>1,215,832</u>	 <u>951,059</u>
 Retained Earnings, End of Year	 <u>\$ 1,459,182</u>	 <u>\$ 1,215,832</u>

Refer both to the auditor's reports and the notes to the financial statements.

Le-Ax Water District
 Statements of Cash Flows
 For the Years Ended December 31, 2002 and 2001

	<u>2002</u>	<u>2001</u>
Cash flows from operating activities:		
Excess of revenues over expenses	\$ <u>445,293</u>	\$ <u>444,052</u>
Adjustments to reconcile operating activities:		
Depreciation and amortization	549,168	535,490
(Increase)decrease in accounts receivable	(41,111)	22,102
(Increase)decrease in prepaid expenses	(10,164)	(1,642)
(Increase)decrease in inventories	14,632	(33,716)
Increase(decrease) in accounts payable	(42,004)	41,824
Increase(decrease) in accrued liabilities	12,651	(6,296)
Increase(decrease) in interest payable	<u>(3,174)</u>	<u>33,664</u>
Total adjustments	<u>479,998</u>	<u>591,426</u>
Net cash provided by operating activities	<u>925,291</u>	<u>1,035,478</u>
Cash flows from non-capital financing activities:		
Miscellaneous non-operating income	<u>32,467</u>	<u>43,669</u>
Net cash provided by non-capital financing	<u>32,467</u>	<u>43,669</u>
Cash flows from capital-related financing activities:		
Acquisition of fixed assets	(401,380)	(454,117)
Principal paid on OWDA note	(54,009)	(52,950)
Interest paid on OWDA note	(19,400)	(20,459)
Principal paid on USDA/RD note	(76,974)	(73,659)
Interest paid on USDA/RD note	<u>(295,283)</u>	<u>(298,734)</u>
Net cash used by capital-related financing	<u>(847,046)</u>	<u>(899,919)</u>
Cash flows from investing activities:		
Interest earned on investments	<u>80,273</u>	<u>96,245</u>
Net cash provided by investing activities	<u>80,273</u>	<u>96,245</u>
Net increase in cash and cash equivalents	190,985	275,473
Cash and cash equivalents, beginning of year	<u>2,406,104</u>	<u>2,130,631</u>
Cash and cash equivalents, end of year	<u>\$ 2,597,089</u>	<u>\$ 2,406,104</u>

Refer both to the auditor's reports and the notes to the financial statements.

Le-Ax Water District
Notes to Financial Statements
For the Years Ended December 31, 2002 and 2001

Note 1. Reporting Entity

The Le-Ax Water District (the District) is a water district organized under the provisions of Chapter 6119 of the Revised Code by the Common Pleas Court of Athens County, Ohio, on February 6, 1981. The District operates under the direction of a five-member board of directors. An appointed staff consisting of a general manager, superintendent, and two office clerks are responsible for fiscal control of the resources of the District. The District was established to provide an adequate and uncontaminated water supply for the consumption of the water district users and for industrial and business use. The District serves all or parts of the following political subdivisions:

<u>Athens County</u>	<u>Meigs County</u>	<u>Vinton County</u>
Alexander Township	Columbia Township	Knox Township
Athens Township	Scipio Township	Brown Township
Canaan Township	Bedford Township	
Lee Township		<u>Hocking County</u>
Waterloo Township		
York Township		Starr Township
Village of Albany		Green Township

The reporting entity is comprised of the primary government, component units, and other organizations that are included to insure that the financial statements are not misleading. The primary government of the District consists of all funds, departments, boards, and agencies that are not legally separate from the District. For Le-Ax Water District, this consists of general operations.

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 financial support to, the organization; or the District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the District in that the District approves the budget, the issuance of debt, or the levying of taxes. There are no component units of the District.

Note 2. Summary of Significant Accounting Policies

The financial statements of the District have been prepared in conformity with generally accepted accounting principles (GAAP) as applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The District also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, to its proprietary activities provided those standards do not conflict with or contradict GASB pronouncements. The significant portions of the District's accounting policies are described below.

A. Basis of Accounting

Enterprise funds are accounted for in a manner similar to private business enterprises where the intent of management is that the costs and expenses, including depreciation, of providing goods and services to the general public on a continuing basis be financed or recovered primarily through user charges and/or where management has decided that periodic determination of revenues earned, expenses incurred, and net income is appropriate for capital maintenance, public policy, management control and accountability.

Le-Ax Water District
Notes to Financial Statements
For the Years Ended December 31, 2002 and 2001
Continued

Note 2. Summary of Significant Accounting Policies (continued)

A. Basis of Accounting (continued)

Enterprise funds are accounted for on the accrual basis of accounting. Their revenues are recognized in the period earned and expenses are recognized in the period incurred.

B. Budgetary Process

The Ohio Revised Code requires that each fund be budgeted annually. The District has adopted a budget and adopted and passed annual appropriations for the years ended December 31, 2002 and 2001.

Appropriations – Budgetary expenditures (that is, disbursements and encumbrances) may not exceed appropriations at the major object level of control, and appropriations may not exceed estimated resources. The District must annually approve appropriation measures and subsequent amendments. Appropriations lapse at year-end.

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

Encumbrances – The Ohio Revised Code requires the District to reserve (encumber) appropriations when commitments are made.

Refer also to Note 8 Budgetary Activity for more information about budgetary versus actual receipts and budgetary versus actual expenses.

C. Cash and Cash Equivalents

Cash and cash equivalents consist of cash on hand and other time deposits in financial institutions with initial maturities of less than three months. The District maintains deposits with financial institutions insured by the Federal Deposit Insurance Corporation (FDIC). As of December 31, 2002 and 2001, the depository bank had all deposits insured by the FDIC and had pledged securities to fully collateralize the bank balance above the amount legally insured by the FDIC. Refer also to Note 3 for more information on deposits and investments.

D. Inventory

The inventory of the District consists of expendable materials and supplies. Inventory is valued at cost, which approximates market, utilizing the first in, first out (FIFO) method. The cost is recorded as an expense at the time individual inventory items are consumed.

E. Prepaid Expenses

Payments made to vendors for services that will benefit periods beyond the applicable fiscal year ended December 31, 2002 and 2001 are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expense is reported in the year in which the services are consumed.

Le-Ax Water District
Notes to Financial Statements
For the Years Ended December 31, 2002 and 2001
Continued

Note 2. Summary of Significant Accounting Policies (continued)

F. Fixed Assets and Depreciation

Fixed assets acquired or constructed for the general use of the District in providing services are recorded at cost. Donated assets are recorded at their estimated fair market value at the time recorded. Capital assets are defined as assets with an initial, individual cost of at least \$1,000 and an estimated useful life in excess of three years. Depreciation of fixed assets of the District is calculated utilizing the straight-line method. All assets reported in the financial statements are at cost less accumulated depreciation. The cost of normal maintenance and repair that does not add to the value of the asset or materially extend the asset's estimated useful life is not capitalized. Refer to Note 4 for more information about fixed assets.

The estimated useful lives by major fixed asset class are as follows:

Water lines, treatment plant, and tanks	40 years
Water meters and installation	20 years
Office building	30 years
Roads and parking lots	10 years
Transportation and other equipment	5 years

G. Compensated Absences

The District records a liability for accumulated unpaid sick, vacation, and compensatory time benefits when earned by employees. Employees earn vacation time at varying rates depending on the duration of their employment. Beginning at the time of employment, employees become vested in accumulated unpaid vacation time. Ohio law requires that vacation time not be accumulated for more than three years. Unused vacation time is payable upon termination of employment. Unused sick leave may be accumulated until retirement. Employees are entitled to payment for accumulated sick leave credit upon retirement. Payment may be made up to a maximum of 25% of accrued sick leave or 240 hours, whichever is less. Employees may elect compensatory time off in lieu of overtime pay when overtime hours are worked. Upon termination of employment or retirement, employees are entitled to payment for unused compensatory time.

All vacation, sick leave and compensatory time benefits are compensated at the employees' current wage rate at the time of retirement or termination. All unpaid vacation time is accrued as a liability subject to the limits stated above. Unpaid sick leave is accrued as stated above for those employees eligible for retirement plus those who are likely to retire from the District.

Refer to Note 7 for information regarding post-employment benefits.

H. Contributed Capital

Contributed capital represents resources from other governments and private sources provided to proprietary funds that are not subject to repayment. Many of these are water line extensions that are constructed by other parties (with the inspection and approval of the District) and then turned over to the District. These assets are recorded at their fair market value on the date donated with an offsetting amount credited to Capital Contributions. These contributions also include the excess of actual cost over the actual amount charged to a new customer for the installation of the new tap.

Le-Ax Water District
Notes to Financial Statements
For the Years Ended December 31, 2002 and 2001
Continued

Note 2. Summary of Significant Accounting Policies (continued)

H. Contributed Capital (continued)

Depreciation on those assets acquired or constructed with contributed resources is expensed and closed to unreserved retained earnings at year-end. Contributed capital of the District has been in the form of donated assets and receipts from customers and developers as well as various federal and/or state grants.

As of January 1, 2001, the District adopted GASB 33 and all such amounts are recorded as Capital Contributions, following the section for non-operating revenues in the statement of revenues, expenses, and changes in retained earnings. Refer to Note 4 below for more information.

I. Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

Note 3. Deposits and Investments

State statutes classify monies held by the District into three categories.

Active deposits are public deposits necessary to meet current demands on the treasury. Such 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 the District has identified as not required for use within the current two-year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.

Interim deposits are deposits of interim monies. Interim monies are those monies that 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.

Protection of the District's deposits is provided by the Federal Deposit Insurance Corporation (FDIC), or by a single collateral pool established by the financial institution to secure the repayment of all public monies deposited with the institution.

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

1. United States treasury notes, bills, bonds, or any other obligation or security issued by the United States treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations 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;

Le-Ax Water District
Notes to Financial Statements
For the Years Ended December 31, 2002 and 2001
Continued

Note 3. Deposits and Investments (continued)

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 or its political subdivisions;
5. Time certificates of deposit or savings or deposit accounts, including, but not limited to, passbook accounts;
6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions; and,
7. The State Treasurer's investment pool (STAR Ohio).

Investments in stripped principal or interest obligations, reverse repurchase agreements, and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the District, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the Treasurer or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

Deposits At December 31, 2002 and 2001, the carrying amount of the District's deposits were as listed below. All amounts were covered by federal deposit insurance and/or collateralized within the limits described above.

	<u>2002</u>	<u>2001</u>
Bank balances	\$ 2,627,407	\$ 2,452,982
Book balances	\$ 2,596,914	\$ 2,405,929

Investments The District's investments are required to be categorized to give an indication of the level of risk assumed by the District at year-end. Category 1 includes investments that are insured or registered or for which the securities are held by the District or its agent in the district's name. Category 2 includes uninsured and unregistered investments that are held by the counterpart's trust department or agent in the District's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterpart, or by its trust department or agent but not in the District's name. During the two years ended December 31, 2002 and 2001, the District had no investments as described above.

Note 4. Change in Accounting Principles

For the year 2001, the District has implemented Governmental Accounting Statement No. 33, *Accounting and Financial Reporting for Non-exchange Transactions*. This statement established accounting and reporting guidelines for non-exchange transactions in which a government receives or gives value without directly receiving (or giving) equal value in exchange. Implementation of this statement did not affect the financial statements as of December 31, 2000. The change is reported in the financial statements presented here.

Le-Ax Water District
Notes to Financial Statements
For the Years Ended December 31, 2002 and 2001
Continued

Note 5. Fixed Assets

A summary of fixed assets at December 31, 2002 and 2001 is as follows:

	<u>2002</u>	<u>2001</u>
Land	\$ 64,829	\$ 64,829
Water Plant and Building	4,593,890	4,593,889
Water Lines, Tanks, and Wells	12,679,988	12,665,672
Roads, Parking Lots, and Fencing	47,851	47,851
Water Meters and Installation	862,876	833,898
Miscellaneous Equipment	647,281	626,389
Office Equipment	169,742	162,851
Construction in Progress	<u>623,137</u>	<u>311,099</u>
Totals	19,689,594	19,306,478
Less: Accumulated Depreciation	<u>5,520,001</u>	<u>4,993,299</u>
Total Net Fixed Assets	<u>\$ 14,169,593</u>	<u>\$ 14,313,179</u>

Note 6. Debt

The District's debt outstanding consisted of the following items.

Ohio Water Development Authority (OWDA) Mortgage Revenue Bonds as of December 31, 2002 and 2001 were \$915,967 and \$969,976, respectively. These mortgage revenue bonds were for various fixed assets constructed to provide service from the well to the distribution lines, including the operations plant and various storage facilities. Property and revenue of the District have been pledged to repay these amounts.

United States Department of Agriculture – Rural Development (USDA/RD), formerly Farmers Home Administration, Le-Ax Water System Revenue Bonds as of December 31, 2002 and 2001 were \$6,555,472 and \$6,632,401, respectively. These water system revenue bonds were for various fixed assets constructed to provide service from the well to the distribution lines including the operation plant and various storage facilities. Revenue of the District has been pledged to repay these amounts.

The annual requirements to amortize all bonded debt outstanding as of December 31, 2002, including principal and interest payments are as follows.

<u>Year Ended</u>	<u>OWDA</u>	<u>USDA/RD</u>
2003	\$ 73,408	\$ 375,432
2004	\$ 73,409	\$ 375,432
2005	\$ 73,408	\$ 375,432
2006	\$ 73,409	\$ 375,432
2007	\$ 73,408	\$ 375,432
To maturity	\$ 548,925	\$ 4,678,267

Le-Ax Water District
Notes to Financial Statements
For the Years Ended December 31, 2002 and 2001
Continued

Note 7. Public Employees Retirement System

Defined Benefit Retirement System District employees participate in the Public Employees Retirement System of Ohio (PERS), a cost-sharing multiple-employer defined benefit pension plan created by the State of Ohio. PERS provides retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by state statute per Chapter 145 of the Ohio Revised Code. The Public Employees Retirement System issues a stand-alone financial report. Interested parties may obtain a copy by making a written request to 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 222-6705 or 1-800-222-PERS (7377).

The Ohio Revised Code provides statutory authority for employee and employer contributions. The 2002 employee contribution rate was 8.5% for all employees except law enforcement and public safety. The 2000 employer contribution rate was 13.55% of covered payroll for all local government units. The District's contributions to PERS for the years ended December 31, 2002 and 2001 were \$77,022 and \$75,739, respectively. This contribution was equal to the required contribution for each year. Employee contributions to PERS totaled \$48,317 and \$47,512 in 2002 and 2001, respectively.

Postemployment Benefits PERS provides postretirement health care coverage to age and service retirants with 10 or more years of qualifying Ohio service credit and to primary survivor recipients of such retirants. Health care coverage for disability recipients is available. The health care coverage provided by the retirement service is considered an Other Postemployment Benefit (OPEB) as described in GASB Statement No. 12. A portion of each employer's contribution to PERS is set aside for the funding of post retirement health care. The Ohio Revised Code provides statutory authority for employer contributions. The 2002 employer contribution rate for local government employer units was 13.55% of covered payroll; 5.00% was used to fund health care.

The Ohio Revised Code provides the statutory authority requiring public employers to fund post-retirement health care through their contributions to PERS.

The assumptions and calculations below were based on the System's latest actuarial review performed as of December 31, 2001.

Funding Method. An entry age normal actuarial cost method of valuation is used in determining the present value of OPEB. The difference between assumed and actual experience (actuarial gains and losses) becomes part of unfunded actuarial accrued liability.

Assets Valuation Method. All investments are carried at market value. For actuarial valuation purposes, a smoothed market approach is used. Under this approach, assets are adjusted annually to reflect 25% of unrealized market appreciation or depreciation on investment assets.

Investment Return. The investment assumption rate for 2001 was 8.00%.

Active Employee Total Payroll. An annual increase of 4.00% compounded annually, is the base portion of individual pay increase assumption. This assumes no change in the number of active employees. Additionally, annual pay increases, over and above the 4.00% base increase, were assumed to range to 0.50% to 6.30%.

Health Care. Health care costs were assumed to increase 4.00% annually.

OPEB are advanced-funded on an actuarially determined basis. The number of active, contributing participants was 402,401. The rates stated in paragraph one of this note are the actuarially determined contribution requirements for PERS. The employer contributions actually made to fund post-employment benefits were \$64,902 for 2002.

Le-Ax Water District
Notes to Financial Statements
For the Years Ended December 31, 2002 and 2001
Continued

Note 7. Public Employees Retirement System (continued)

The Retirement System's net assets available for OPEB at December 31, 2002 totaled \$11.6 billion. The actuarially accrued liability and the unfounded actuarial accrued liability, based on the actuarial cost method used, were \$16.4 billion and \$4.8 billion, respectively.

In December 2001, the Board adopted the Health Care "Choices" Plan in its continuing effort to respond to the rise in the cost of health care. The Choices Plan will be offered to all persons newly hired under PERS after January 1, 2003, with no prior service credit accumulated toward health care coverage. Choices, as the name suggests, will incorporate a cafeteria approach, offering a more broad range of health care options. The Plan uses a graded scale from ten to thirty years to calculate a monthly health care benefit. This is in contrast to the ten-year "cliff" eligibility standard for the present Plan.

Note 8. Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District had no settlement costs that exceeded insurance coverage during the audit period. The District does not retain any significant amount of risk and does not participate in any public entity risk pools. During the two years ended December 31, 2002 and 2001, the District contracted for the following insurance coverages.

General liability: Per occurrence = \$4,000,000	Total per year = \$6,000,000
Buildings and contents	\$8,152,195
Commercial crime	\$50,000
Automobile liability	\$4,000,000
Uninsured and underinsured motorist	\$1,000,000

Note 9. Budgetary Activity

Budgetary activity for budgeted versus actual receipts for the years ended December 31, 2002 and 2001 are as follows:

	<u>2002</u>	<u>2001</u>
Budgeted receipts	\$ 2,565,000	\$ 2,507,000
Actual receipts	<u>2,528,548</u>	<u>2,451,617</u>
Variance - Favorable (Unfavorable)	\$ <u>(36,452)</u>	\$ <u>(55,383)</u>

Budgetary activity for budgeted versus actual budgetary basis expenses for the years ended December 31, 2002 and 2001 are as follows:

	<u>2002</u>	<u>2001</u>
Appropriation authority	\$ 2,855,500	\$ 2,627,800
Actual budgetary expenses	<u>2,285,198</u>	<u>2,186,844</u>
Variance - Favorable (Unfavorable)	\$ <u>570,302</u>	\$ <u>440,956</u>

LE-AX WATER DISTRICT
December 31, 2002 and 2001

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND
ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON
AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH *GOVERNMENT AUDITING STANDARDS***

WILLIAM KENNETH YOHO II

CERTIFIED PUBLIC ACCOUNTANT

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Le-Ax Water District of Athens County
6000 Industrial Drive, PO Box 97
The Plains, Ohio 45780

To the Board of Directors:

I have audited the financial statements of Le-Ax Water District, as of and for the years ended December 31, 2002 and 2001, and have issued my report thereon dated June 8, 2003. I conducted my 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.

Compliance

As part of obtaining reasonable assurance about whether the agency's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of the audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance that would be required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered the District's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control over financial reporting. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. I noted no matters involving the internal control over financial reporting that I consider to be material weaknesses as defined above. However, I noted other matters involving the internal control over financial reporting that do not require inclusion in this report that I have reported to the management of Le-Ax Water District in a separate management letter dated June 8, 2003.

This report is intended for the information and use of the management, Board of Trustees, and certain funding and oversight agencies of the Le-Ax Water District and is not intended to be and should not be used by anyone other than these specified parties.

William Kenneth Yoho II, CPA
June 8, 2003



**Auditor of State
Betty Montgomery**

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LE-AX REGIONAL WATER DISTRICT

ATHENS COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
SEPTEMBER 23, 2003**