

ALLEN WATER DISTRICT

BASIC FINANCIAL STATEMENTS

DECEMBER 31, 2005 AND 2004



**Auditor of State
Betty Montgomery**

Board of Trustees
Allen Water District
2500 Shawnee Road, Suite C
P.O. Box 724
Lima, Ohio 45802-0724

We have reviewed the *Independent Auditor's Report* of the Allen Water District, Allen County, prepared by Rea & Associates, Inc., for the audit period January 1, 2004 through December 31, 2005. 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 Allen Water District is responsible for compliance with these laws and regulations.

A handwritten signature in cursive script that reads "Betty Montgomery".

BETTY MONTGOMERY
Auditor of State

November 22, 2006

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**ALLEN WATER DISTRICT
ALLEN COUNTY
BASIC FINANCIAL STATEMENTS**

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We're Ready For Your Future

July 28, 2006

Board of Trustees
Allen Water District
2500 Shawnee Rd., Ste. C
Lima, Ohio 45806

Independent Auditor's Opinion

We have audited the accompanying financial statements of the business-type activity of the Allen Water District, Allen County, Ohio, as of and for the years ended December 31, 2005 and 2004, which collectively comprise the Allen Water District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Allen Water District's management. Our responsibility is to express opinions 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 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. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activity of the Allen Water District, Allen County, Ohio, as of December 31, 2005 and 2004, and the respective changes in financial position and cash flows, where applicable, thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated July 28, 2006 on our consideration of the Allen Water 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 Government Auditing Standards and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 2 through 6 is not a required part of the basic financial statements but is supplementary information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Rea & Associates, Inc.

**ALLEN WATER DISTRICT
ALLEN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004
(Unaudited)**

This discussion and analysis, along with the accompanying financial reports, of Allen Water District (AWD or "the District") is designed to provide our customers, creditors and other interested parties with a general overview of the District and its financial activities.

FINANCIAL HIGHLIGHTS

The total assets of AWD exceeded liabilities on December 31, 2005 by \$11,465,751 and on December 31, 2004 by \$10,381,283. The District's net assets increased by \$1,084,468 (10.4%) in 2005 and by \$1,065,049 (11.4%) in 2004.

The District's Operating Revenues increased by \$23,066 (4.9%) in 2005 and by \$45,307 (10.7%) in 2004. Operating Expenses increased by \$28,136 (4.9%) in 2005 and by \$44,379 (8.4%) in 2004.

The District issued an additional \$129,569 and \$881,070 of long term debt in 2005 and 2004, respectively.

OVERVIEW OF BASIC FINANCIAL STATEMENTS

The District is a single enterprise fund using proprietary fund accounting, similar to private sector business. The Basic Financial Statements are presented using the accrual basis of accounting.

The **Statements of Net Assets** include all of the District's Assets and Liabilities. These statements provide information about the nature and amounts of investments in resources (assets) owned by the District, and obligations owed by the District (liabilities) on December 31. The District's net assets are the difference between assets and liabilities.

The **Statements of Revenues, Expenses and Changes in Net Assets** provide information on the District's operations over the past two years and the success of recovering all its costs through user fees, charges, special assessments and other income. Revenues are reported when earned and expenses are reported when incurred.

The **Statements of Cash Flows** provide information about the District's cash receipts and cash disbursements. It summarizes the net changes in cash resulting from operating, investing and financing activities.

**ALLEN WATER DISTRICT
ALLEN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEARS ENDED DECEMBER 31, 2005 AND 2004
(Unaudited)**

STATEMENTS OF NET ASSETS

Table 1 summarizes the Statements of Net Assets of the District. Capital Assets are reported less accumulated depreciation. "Invested in Capital Assets, Net of Related Debt", represents Capital Assets less outstanding debt that was used to acquire those assets.

	(Table 1) Net Assets		
	2005	2004	2003
Current and Other Assets	\$ 7,809,048	\$ 8,103,864	\$ 7,641,472
Capital Assets	12,850,912	11,890,564	10,848,262
Total Assets	20,659,960	19,994,428	18,489,734
Long Term Liabilities	8,557,141	8,810,430	8,421,272
Other Liabilities	637,068	802,715	752,228
Total Liabilities	9,194,209	9,613,145	9,173,500
Net Assets			
Invested in Capital Assets, Net of Related Debt	4,357,850	3,035,158	2,412,066
Restricted for Debt Service	970,761	985,620	1,121,923
Unrestricted	6,137,140	6,360,505	5,782,245
Total Net Assets	\$ 11,465,751	\$ 10,381,283	\$ 9,316,234

The District's Net Assets increased by \$1,084,468 (10.4%) in 2005 and \$1,065,049 (11.4%) in 2004. These increases are primarily the result of capital contributions in both years.

Unrestricted net assets decreased \$223,365 from 2004 to 2005 and increased by \$578,260 from 2003 to 2004. Unrestricted assets may be used without constraints established by other legal requirements. Cash and investments increased by \$71,973 from 2004 to 2005 primarily due to operating activities and decreased by \$241,979 from 2003 to 2004 due to paying off additional debt during the year.

**ALLEN WATER DISTRICT
ALLEN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEARS ENDED DECEMBER 31, 2005 AND 2004
(Unaudited)**

STATEMENTS OF CHANGES IN NET ASSETS

Table 2 below summarizes the changes in Revenues and Expenses and the resulting change in Net Assets.

(Table 2)
Changes in Net Assets

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Operating Revenues	\$ 490,318	\$ 467,252	\$ 421,945
Operating Expenses (Excluding Depreciation)	306,135	303,135	268,794
Depreciation	293,259	268,123	258,085
Total Operating Expenses	<u>599,394</u>	<u>571,258</u>	<u>526,879</u>
Operating Loss	(109,076)	(104,006)	(104,934)
Non-Operating Revenues	647,705	511,134	457,655
Non-Operating Expenses	(584,863)	(572,991)	(853,493)
Capital Contributions	1,130,702	1,230,912	498,396
Changes in Net Assets	<u>1,084,468</u>	<u>1,065,049</u>	<u>(2,376)</u>
Net Assets at Beginning of Year	<u>10,381,283</u>	<u>9,316,234</u>	<u>9,318,610</u>
Net Assets at End of Year	<u><u>\$11,465,751</u></u>	<u><u>\$10,381,283</u></u>	<u><u>\$9,316,234</u></u>

Operating Revenues increased \$23,066 from 2004 to 2005 due to an increased number of customers. Operating expenses, exclusive of depreciation, increased \$3,000 primarily due to increases in the contract fee expense which increases with additional service charge revenue; however these increases were partially offset by no audit costs being incurred during fiscal year 2005 as the audit occurs every two years. Depreciation increased by \$25,136 from 2004 to 2005 due to additional capital assets being put into service and being depreciated. Capital Contributions decreased by (\$100,210) from 2004 to 2005 primarily due to fewer special assessment projects in 2005.

Operating Revenues increased \$45,307 from 2003 to 2004 due to an increased number of customers. Operating expenses, exclusive of depreciation, increased \$34,341 primarily due to increases in the contract fee expense which increases with additional service charge revenue and also due to increased professional services expenses due to additional planning and related expenses due to District growth. Depreciation increased by \$10,038 from 2003 to 2004 due to additional capital assets being put into service and being depreciated. Capital Contributions increased by \$732,516 from 2003 to 2004 primarily due to a larger number of developer donated lines in 2004 and a large special assessment project (Shawnee Phase II) being implemented.

**ALLEN WATER DISTRICT
ALLEN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEARS ENDED DECEMBER 31, 2005 AND 2004
(Unaudited)**

CAPITAL ASSETS

The District had \$15,312,471 invested in Capital Assets (before depreciation) at the end of 2005. This amount is an increase of \$1,253,607 (8.9%) from the previous year. This increase is partially due to additional developer donated lines of \$774,105 in 2005 compared to \$423,515 in 2004. The majority of the rest of the increase is due to the construction of the Fort Amanda Loop project, the Cole Street Extension Loop project, and the North West Street project which amounted to \$180,962, \$139,666 and \$129,588 respectively in 2005. The District had \$12,850,912 invested in Net Capital Assets (after depreciation) at the end of 2005. This amount is an increase of \$960,348 (8.1%) from the previous year. The reason that Net Capital Assets did not increase as much is due to depreciation expense in the amount of \$293,259 during 2005.

The District had \$14,058,864 invested in Capital Assets (before depreciation) at the end of 2004. This amount is an increase of \$1,307,930 (10.3%) from the previous year. This increase is partially due to additional developer donated lines of \$423,515 in 2004 compared to \$7,888 in 2003. The majority of the rest of the increase is due to the construction of the Shawnee Phase II project which amounted to \$884,160 in 2004. The District had \$11,890,564 invested in Net Capital Assets (after depreciation) at the end of 2004. This amount is an increase of \$1,042,302 (9.6%) from the previous year. The reason that Net Capital Assets did not increase as much is due to depreciation expense in the amount of \$268,123. Additional information regarding capital assets can be found in Note H to the Basic Financial Statements.

**(Table 3)
Capital Assets at December 31**

	2005	2004	2003
Land Easements	\$ 7,186	\$ 7,186	\$ 7,186
Water Lines	15,283,671	14,030,064	12,720,889
Office Furniture & Equipment	21,614	21,614	22,859
Totals Before Accumulated Depreciation	15,312,471	14,058,864	12,750,934
Accumulated Depreciation	(2,461,559)	(2,168,300)	(1,902,672)
Net Capital Assets	\$12,850,912	\$11,890,564	\$10,848,262

**ALLEN WATER DISTRICT
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**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEARS ENDED DECEMBER 31, 2005 AND 2004
(Unaudited)**

DEBT

The District issues long term debt to finance much of its construction. The District typically levies special assessments on the benefiting property owners and then obtains Ohio Water Development Authority Loans (OWDA) to finance these water line projects. The special assessment collections are generally received over a twenty five year period and such collections are used to pay the debt service on the OWDA Loans. Additional information regarding debt can be found in Note I to the Basic Financial Statements.

**(Table 4)
Outstanding Debt, at December 31**

	<u>2005</u>	<u>2004</u>	<u>2003</u>
OWDA Loans	\$ 8,217,727	\$ 8,580,071	\$ 8,160,861
Rotary Commission Loans	<u>275,335</u>	<u>275,335</u>	<u>275,335</u>
Total Long Term Debt	8,493,062	8,855,406	8,436,196
Less			
Current Maturities	<u>343,043</u>	<u>491,911</u>	<u>461,859</u>
Net Total Long Term Debt	<u>\$ 8,150,019</u>	<u>\$ 8,363,495</u>	<u>\$ 7,974,337</u>

CASH

Cash and investments on December 31, 2005 were \$1,230,018 and on December 31, 2004 were \$1,158,045. \$970,761 and \$985,620 of these funds are restricted for debt service in 2005 and 2004, respectively. As the District receives the special assessment payments on each project the monies are put into separate accounts restricted for the repayment of that specific debt for that project. As the debt comes due the monies are used to make the debt service payments.

CONTACT INFORMATION

Questions regarding this report and requests for additional information should be forwarded to Glenn Hasting, Treasurer, Allen Water District, 2500 Shawnee Road, Lima, Ohio 45806 or (419) 224-0724.

**ALLEN WATER DISTRICT
ALLEN COUNTY**

**STATEMENTS OF NET ASSETS
AS OF DECEMBER 31, 2005 AND 2004**

ASSETS

	2005	2004
CURRENT ASSETS:		
Cash and cash equivalents	\$ 1,230,018	\$ 1,158,045
Accounts receivable	39,349	84,517
Intergovernmental receivable	5,054	5,284
Prepaid insurance	1,885	1,854
Total current assets	1,276,306	1,249,700
 NONCURRENT ASSETS:		
Capital Assets:		
Land easements	7,186	7,186
Water lines	15,283,671	14,030,064
Office furniture and equipment	21,614	21,614
	15,312,471	14,058,864
Less: Accumulated depreciation	(2,461,559)	(2,168,300)
Net capital assets	12,850,912	11,890,564
 Other Assets:		
Assessments receivable	6,523,143	6,660,119
Planning costs	9,599	194,045
Total other assets	6,532,742	6,854,164
 TOTAL ASSETS	 \$ 20,659,960	 \$ 19,994,428

LIABILITIES

	<u>2005</u>	<u>2004</u>
CURRENT LIABILITIES:		
Accounts payable	\$ 31,183	\$ 40,174
Accrued interest	258,356	267,934
Vacation accrual	307	269
Payroll taxes accrued and withheld	4,179	2,427
Notes payable - current portion	343,043	491,911
Total current liabilities	<u>637,068</u>	<u>802,715</u>
LONG-TERM LIABILITIES:		
Deferred revenues	407,122	446,935
Notes payable	8,150,019	8,363,495
Total long-term liabilities	<u>8,557,141</u>	<u>8,810,430</u>
TOTAL LIABILITIES	<u>9,194,209</u>	<u>9,613,145</u>
NET ASSETS:		
Invested in capital assets, net of related debt	4,357,850	3,035,158
Unrestricted	<u>7,107,901</u>	<u>7,346,125</u>
TOTAL NET ASSETS	<u>\$ 11,465,751</u>	<u>\$ 10,381,283</u>

See accompanying notes to the basic financial statements.

**ALLEN WATER DISTRICT
ALLEN COUNTY**

**STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004**

	2005	2004
OPERATING REVENUES:		
District fees	\$ 315,277	\$ 300,306
Contract fees revenue	175,041	166,946
	Total operating revenues	490,318
	490,318	467,252
 OPERATING EXPENSES:		
Office wages	24,071	22,503
Contract fees expense	174,410	157,757
Trustee fees	15,900	17,000
Payroll taxes and workers compensation	977	1,107
PERS expense	5,265	5,351
Engineering fees	20,750	31,140
Legal fees	30,654	24,937
Accounting	11,163	8,545
Audit fees	0	10,295
Insurance	4,220	4,587
Telephone/data communications	2,861	2,642
Office supplies	977	2,051
Equipment maintenance	115	674
Rent	7,200	7,200
Office maintenance	1,180	984
Public relations	144	0
Postage	639	783
Easement rent	495	485
Utilities	1,305	1,074
Depreciation	293,259	268,123
Transportation	3,809	4,020
	Total operating expenses	571,258
	599,394	571,258
Operating loss	\$ (109,076)	\$ (104,006)
	(109,076)	(104,006)

**ALLEN WATER DISTRICT
ALLEN COUNTY**

**STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS (Continued)
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004**

	2005	2004
Operating loss	\$ (109,076)	\$ (104,006)
NONOPERATING REVENUES (EXPENSES):		
Tap fees	70,939	71,995
Tap fee recoupment	(20,095)	(16,403)
Intergovernmental	10,338	5,284
Interest income	422,835	395,445
Capital permit fees	80,900	0
Plan and review/inspection revenue	52,268	25,052
Plan and review/inspection expenses	(39,968)	(32,978)
CIP revenues	6,567	9,186
Meter fees	3,689	4,172
Interest expense	(524,800)	(523,610)
Miscellaneous revenue	169	0
Net other income (expense)	62,842	(61,857)
Changes in net assets before capital contributions	(46,234)	(165,863)
Capital contributions - donated lines	774,105	423,515
Capital contributions - intergovernmental	163,215	0
Capital contributions - special assessments	193,382	807,397
Total Capital Contributions & Special Assessments	1,130,702	1,230,912
Changes in net assets	1,084,468	1,065,049
Net assets, beginning of year (December 31, 2003, restated)	10,381,283	9,316,234
Net assets, end of year	\$ 11,465,751	\$ 10,381,283

See accompanying notes to the basic financial statements.

**ALLEN WATER DISTRICT
ALLEN COUNTY**

**STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004**

	<u>2005</u>	<u>2004</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from customers	\$ 343,172	\$ 270,562
Cash received from contract fee revenues	191,461	149,915
Cash payments to suppliers for goods and services	(262,837)	(247,764)
Cash payments for employee services and benefits	(44,423)	(46,176)
Net cash provided by operating activities	<u>227,373</u>	<u>126,537</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Other income	<u>169</u>	<u>0</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Tap fees	70,939	71,995
Tap fee recoupment	(20,095)	(16,403)
Plan and review/inspection revenue	52,268	25,052
Plan and review/inspection expenses	(39,968)	(32,978)
Capital permit fees	80,900	0
CIP revenues	7,098	8,782
Meter fees	4,011	3,940
Intergovernmental	10,568	0
OWDA principal payments	(491,914)	(461,858)
OWDA interest payments	(529,327)	(512,602)
Intergovernmental Contributions on projects	163,215	0
Special assessments collections	276,994	336,671
Special assessment interest income	400,706	380,718
Proceeds from OWDA Loans	129,569	881,070
Capital outlay	(292,662)	(1,067,630)
Net cash provided (used) by capital and related financing activities	<u>(177,698)</u>	<u>(383,243)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest on cash and investments	<u>22,129</u>	<u>14,727</u>
Net increase (decrease) in cash and cash equivalents	71,973	(241,979)
Cash and cash equivalents at beginning of year	<u>1,158,045</u>	<u>1,400,024</u>
Cash and cash equivalents at end of year	<u><u>\$ 1,230,018</u></u>	<u><u>\$ 1,158,045</u></u>

See accompanying notes to the basic financial statements.

**ALLEN WATER DISTRICT
ALLEN COUNTY**

**STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004**

	2005	2004
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating loss	\$ (109,076)	\$ (104,006)
ADJUSTMENTS TO RECONCILE OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Depreciation	293,259	268,123
Changes in Assets and Liabilities:		
(Increase) decrease in accounts receivable	44,315	(47,412)
(Increase) decrease in prepaid insurance	(31)	405
Increase (decrease) in accounts payable (operating)	(2,884)	9,642
Increase (decrease) in accrued wages and benefits	1,790	(215)
Total adjustments	336,449	230,543
Net cash provided by operating activities	\$ 227,373	\$ 126,537

See accompanying notes to the basic financial statements.

**ALLEN WATER DISTRICT
ALLEN COUNTY**

**NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004**

NOTE A – NATURE OF ORGANIZATION

The Allen Water District, hereafter referred to as AWD, was created by the Court of Common Pleas of Allen County in accordance with the provisions of Section 6119.01 to provide water services to the residents of Bath, American, Perry, and Shawnee Townships. A seven (7) member appointed Board of Trustees manage the Allen Water District.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies followed in the preparation of these financial statements conform to generally accepted accounting principles for local government units as prescribed in the statements issued by the Governmental Accounting Standards Board and other recognized authoritative sources.

1. **Basis of Presentation - Fund Accounting**

The accounts of AWD are organized on the basis of funds, to report on its financial position and the results of its operations, each of which is considered a separate accounting entity. The AWD has created a single type of fund and a single fund within that fund type. The fund is accounted for by a separate set of self-balancing accounts that comprise its assets, liabilities, net assets, revenues, and expenses. This fund accounts for the governmental resources allocated to it for the purpose of carrying on specific activities in accordance with laws, regulations or other restrictions. The fund type, which AWD uses, is described below:

Proprietary Fund Type - This fund type accounts for operations that are organized to be self-supporting through user charges. The fund included in this category used by AWD is the Enterprise Fund. Under the guidelines of GASB 20, the District has elected not to apply Financial Accounting Standards Board Statements and Interpretations issued after November 30, 1989 to its proprietary activities. The adoption of this approach to accounting policies consistently applied in preparation of the accompanying financial statements follows:

Enterprise Fund - This fund is established to account for operations that are financed and operated in a manner similar to private business enterprises where the intent is that costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

2. **Basis of Accounting**

The accounting records are maintained on the accrual basis of accounting for financial reporting purposes.

3. **Budgetary Process**

The Ohio Revised Code requires that each fund be budgeted annually. The District has adopted a budget for the years ended December 31, 2005 and 2004, and has adopted and passed annual appropriations and resolutions.

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

**ALLEN WATER DISTRICT
ALLEN COUNTY**

**NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004**

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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.

4. Cash and Investments

Cash balances are held in a central bank account and invested in STAR Ohio. For purposes of the statement of cash flows, AWD considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents. This also would include investments in STAR Ohio. Investments are stated at cost which approximates fair value.

5. Accounts Receivable

Accounts receivable consist of District fees charged to customers and are shown at their net realizable value.

6. Prepaid Expenses

Payments made to vendors for services that will benefit periods beyond December 31, 2005 and 2004 are recorded as prepaid items using the consumption method. A current asset of the prepaid amount is recorded at the time of purchase and as an expense in the year in which the services are consumed.

7. Restricted Assets

Certain proceeds from property assessments are classified as restricted assets on the balance sheet because their use is restricted for the payment of debt service.

8. Capital Assets

Capital assets are stated at cost and are depreciated over the estimated useful lives of the assets from five to fifty years, depending on the type of asset. Equipment is generally depreciated over five to seven years while water lines are generally depreciated over fifty years. Donated assets are reported at their estimated fair value on the date donated. In addition, interest costs incurred during the construction of the water system infrastructure are capitalized and included in capital assets. Once construction is complete and a project is operational, depreciation begins on all planning costs, construction costs, loan fees, and capitalized interest.

Depreciation is computed using the straight-line method for financial reporting purposes.

9. Planning Costs - Proposed Projects

The planning costs for proposed projects are comprised of engineering, legal and administrative planning costs which are not allocated to specific projects currently in construction. If the proposed project begins construction, the respective planning costs will be included in capital assets and depreciated (as Note B8 defines). If the proposed project does not enter construction, respective planning costs will be deemed impaired assets and written-off.

**ALLEN WATER DISTRICT
ALLEN COUNTY**

**NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004**

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

10. **Interest Expense**

Interest expense represents the interest portion of construction loan payments to the Ohio Water Development Authority.

11. **Revenue Recognition**

Revenues for service fees are recorded in the period the service is provided. Revenues for tap fees are recorded when the taps have been installed and the customer is using the service. All other revenue is recognized when earned.

12. **Income Tax**

AWD operates as a public water system exempt from federal income tax under Internal Revenue Code Section 501(c)(1).

13. **Net Assets**

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consist of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvements of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by AWD or through external restrictions imposed by creditors, grantors or laws, or regulations of other governments. AWD applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

14. **Estimates**

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

15. **Operating Revenues and Expenses**

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For Allen Water District, these revenues are district fees and contract fee revenue for water services provided. Operating expenses are necessary costs incurred to provide the goods and/or service that is the primary activity of the fund.

NOTE C – EQUITY IN POOLED CASH AND INVESTMENTS - LEGAL REQUIREMENTS FOR DEPOSITS

Active deposits are public deposits necessary to meet current demands. Such monies must be maintained either as cash in the 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 Board of Trustees 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.

**ALLEN WATER DISTRICT
ALLEN COUNTY**

**NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004**

**NOTE C – EQUITY IN POOLED CASH AND INVESTMENTS - LEGAL REQUIREMENTS
FOR DEPOSITS - 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 monies can 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;
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, its political subdivisions, or other units or agencies of this State 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 items (1) and (2) of this footnote 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. Securities lending agreements in which the District lends securities and the eligible institution agrees to exchange either securities described in division (1) or (2), or cash, or both securities and cash, equal value for equal value;
9. High grade commercial paper in an amount not to exceed five percent of the District's total average portfolio;
10. Bankers acceptances for a period not to exceed 270 days and in an amount not to exceed ten percent of the District's average portfolio.

**ALLEN WATER DISTRICT
ALLEN COUNTY**

**NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004**

**NOTE C – EQUITY IN POOLED CASH AND INVESTMENTS - LEGAL REQUIREMENTS
FOR DEPOSITS – Continued**

Protection of the AWD’s deposits is provided by the Federal Deposit Insurance Corporation, by eligible securities pledged by the financial institution as 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.

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. Investments must mature within five years from the date of purchase unless matched to a specific obligation or debt of the AWD, 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 - Custodial credit risk for deposits is the risk that in the event of bank failure, the District will not be able to recover deposits or collateral securities that are in the possession of an outside party. At both fiscal year ends, the carrying amount of deposits was \$259,057 and \$172,225 as of December 31, 2005 and 2004, respectively. The bank balance as of December 31, 2005 and 2004 was \$279,473 and \$188,929, respectively and \$100,000 of the bank balances were covered by federal depository insurance. The remaining balances were collateralized by third party trustees in single institution collateral pools, securing all public funds on deposit with specific depository institutions and subject to custodial credit risk. Although the securities servicing as collateral were held by the pledging institution in the pledging institution’s name and all State statutory requirements for the deposit of money had been followed, noncompliance with federal requirements would potentially subject the District to a successful claim by the FDIC. In addition, \$200 was carried in a petty cash fund for both fiscal years.

Investments - AWD has invested in the State Treasury Asset Reserve of Ohio (STAR Ohio) during fiscal years 2005 and 2004. STAR Ohio is an investment pool managed by the State Treasurer’s Office, which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio’s share price, which is the price the investment could be sold for on December 31, 2005 and 2004. The District’s investments in Star Ohio are unclassified investments since they are not evidenced by securities that exist in physical or book entry form.

	2005		2004	
	Fair Value	Weighted Average Maturity (Yrs.)	Fair Value	Weighted Average Maturity (Yrs.)
STAR Ohio	\$970,761	0	\$985,620	0
Total Fair Value	<u>\$970,761</u>		<u>\$985,620</u>	

**ALLEN WATER DISTRICT
ALLEN COUNTY**

**NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004**

NOTE C – EQUITY IN POOLED CASH AND INVESTMENTS - LEGAL REQUIREMENTS FOR DEPOSITS – Continued

Interest rate risk – In accordance with the investment policy, AWD manages its exposure to declines in fair values by investing exclusively in STAR Ohio.

Credit risk – AWD limits their investments to STAR Ohio. Investments in STAR Ohio were rated AAAM by Standard & Poor's.

Concentration of credit risk – AWD's investment policy allows investments in STAR Ohio, Repurchase Agreements, Certificates of Deposit or within financial institutions within the State of Ohio as designated by the Federal Reserve Board. AWD has invested 100% in investments in STAR Ohio.

Custodial credit risk is the risk that in the event of the failure of the counterparty, AWD will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. All of AWD's securities are either insured and registered in the name of AWD or at least registered in the name of AWD.

NOTE D – ACCOUNTS RECEIVABLE/SPECIAL ASSESSMENTS RECEIVABLE

The accounts receivable balance of \$39,349 at December 31, 2005 (\$84,517 at December 31, 2004) is current (due 0-30 days). Assessment receivables of \$6,523,143 at December 31, 2005 (\$6,660,119 at December 31, 2004) represent the remaining balance of construction assessments, less prepayments, and principal amounts received from the county auditor.

Once an assessment has been issued for construction costs, and the deadline is final for prepayments, the remaining unpaid balances are certified to the county auditor for semi-annual collection over 25 years through real estate tax billings. Interest is being charged at the same rate as the respective OWDA loan.

NOTE E – DISTRICT AND CONTRACT FEES

AWD customers, as an outside the city user, pay a service charge for water as well as a contract fee, not to exceed 50 percent of the water service charge, for the right and privilege of receiving water services as defined in the contract between AWD and the City of Lima. The City of Lima is responsible for the billing and collection of all fees on behalf of AWD.

NOTE F - COMPENSATED ABSENCES

The District uses the provisions of GASB Statement No. 16, "Accounting for Compensated Absences." Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the employer will compensate the employees for the benefits through paid time off or some other means. Sick leave benefits are not accrued as a liability as employees receive no payment for accrued sick leave upon termination or retirement.

**ALLEN WATER DISTRICT
ALLEN COUNTY**

**NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004**

NOTE G – RISK MANAGEMENT

The District is exposed to various risks of loss related to torts, theft or damage to, and destruction of assets, errors and omissions, injuries to employees and natural disasters. AWD contracted with Roser Insurance for commercial general liability insurance. The coverage insures up to \$1,000,000 for each occurrence and \$3,000,000 for an aggregate total.

The District had no significant reductions in insurance coverage from prior years. The District has not had any insurance settlements which exceeded insurance coverage during the past three years.

NOTE H – CAPITAL ASSETS

Capital assets activity for the years ended December 31, 2004 and 2005 was as follows:

	Balance 12/31/03	Additions	Deletions	Balance 12/31/04
Capital Assets, Not Being Depreciated				
Land Easements	\$ 7,186	\$ 0	\$ 0	\$ 7,186
Capital Assets Being Depreciated				
Water Lines	12,720,889	1,309,175	0	14,030,064
Office Furniture and Equipment	22,859	1,250	(2,495)	21,614
Total Capital Assets, Being Depreciated	<u>12,743,748</u>	<u>1,310,425</u>	<u>(2,495)</u>	<u>14,051,678</u>
Less Accumulated Depreciation:				
Water Lines	(1,880,316)	(267,525)	0	(2,147,841)
Office Furniture and Equipment	(22,356)	(598)	2,495	(20,459)
Total Accumulated Depreciation	<u>(1,902,672)</u>	<u>(268,123)</u>	<u>2,495</u>	<u>(2,168,300)</u>
Total Capital Assets Being Depreciated, Net	<u>10,841,076</u>	<u>1,042,302</u>	<u>0</u>	<u>11,883,378</u>
Total Capital Assets, Net	<u>\$ 10,848,262</u>	<u>\$ 1,042,302</u>	<u>\$ 0</u>	<u>\$ 11,890,564</u>

**ALLEN WATER DISTRICT
ALLEN COUNTY**

**NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004**

NOTE H – CAPITAL ASSETS – Continued

	Balance 12/31/04	Additions	Deletions	Balance 12/31/05
Capital Assets, Not Being Depreciated				
Land Easements	\$ 7,186	\$ 0	\$ 0	\$ 7,186
Capital Assets Being Depreciated				
Water Lines	14,030,064	1,253,607	0	15,283,671
Office Furniture and Equipment	21,614	0	0	21,614
Total Capital Assets, Being Depreciated	<u>14,051,678</u>	<u>1,253,607</u>	<u>0</u>	<u>15,305,285</u>
Less Accumulated Depreciation:				
Water Lines	(2,147,841)	(292,890)	0	(2,440,731)
Office Furniture and Equipment	(20,459)	(369)	0	(20,828)
Total Accumulated Depreciation	<u>(2,168,300)</u>	<u>(293,259)</u>	<u>0</u>	<u>(2,461,559)</u>
Total Capital Assets Being Depreciated, Net	<u>11,883,378</u>	<u>960,348</u>	<u>0</u>	<u>12,843,726</u>
Total Capital Assets, Net	<u>\$ 11,890,564</u>	<u>\$ 960,348</u>	<u>\$ 0</u>	<u>\$ 12,850,912</u>

**ALLEN WATER DISTRICT
ALLEN COUNTY**

**NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004**

NOTE H – CAPITAL ASSETS - Continued

The following is a more detailed schedule of capital assets at December 31:

	<u>2005</u>	<u>2004</u>
Land easement	\$ 7,186	\$ 7,186
Water lines:		
Elm and Copus	349,046	349,046
Shawnee	1,447,304	1,447,304
McDonel	859,112	859,112
Hawthorne	211,545	211,545
State Route 309	261,180	261,180
Allentown	1,759,880	1,759,880
Buckeye Road	317,070	317,070
Shagbark and Snowberry	153,781	153,781
Springbrook	883,148	883,148
East Breese	542,554	542,554
Greely Chapel South	170,267	170,267
Dixie/Blue I & II	782,167	782,167
East Bluelick Extension	99,872	99,872
Hawthorne Extension	58,946	58,946
Lee Ann	41,969	41,969
Woodbriar	635,386	635,386
Metzger	98,363	98,363
Linfield	79,094	79,094
Fetter	216,663	216,663
Stewart	202,941	202,941
Dixie North - King	149,768	149,768
Sweger-Fraunfelter	231,822	231,822
Diller/Eastown/Frank	526,584	526,584
Eastown	185,540	185,540
Colony Park	264,676	264,676
Dixie North #3	80,107	80,107
Zurmehly Road Extension	44,470	44,470
Bath Loop	402,204	402,204
Cotner/Wapak	231,657	231,657
Shawnee Phase II	884,160	884,160
Fort Amanda Loop	180,962	0
Cole Street Extension Loop	139,666	0
North West Street	129,588	0
North Cole Street Extension Loop	29,288	0
Developer Donated Lines	<u>2,632,891</u>	<u>1,858,788</u>
Total Water Lines	15,283,671	14,030,064
Office furniture and equipment	<u>21,614</u>	<u>21,614</u>
Total Capital Assets	15,312,471	14,058,864
Less accumulated depreciation	<u>(2,461,559)</u>	<u>(2,168,300)</u>
Net Capital Assets	<u>\$ 12,850,912</u>	<u>\$ 11,890,564</u>

**ALLEN WATER DISTRICT
ALLEN COUNTY**

**NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004**

NOTE I – CURRENT AND LONG-TERM DEBT

Long-term debt obligations and the related transactions for the years ending December 31, 2003, 2004 and 2005 are summarized below:

	<u>Balance 12/31/03</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 12/31/04</u>	<u>Due Within One Year</u>
Note Payable OWDA, payable in 50 semiannual installments of \$758 starting January 1, 1993, including interest at 7.45%, due July, 2017	\$ 12,908	\$ 0	\$ 554	\$ 12,354	\$ 596
Note Payable OWDA, payable in 50 semiannual installments of \$15,886 starting January 1, 1993, including interest at 7.56%, due July, 2017	268,435	0	11,439	256,996	12,304
Note Payable OWDA, payable in 50 semiannual installments of \$75,646 starting January 1, 1994, including interest at 7.54%, due July, 2018	1,332,147	0	50,848	1,281,299	54,682
Note Payable OWDA, payable in 50 semiannual installments of \$42,821 starting January 1, 1994, including interest at 7.24%, due July, 2018	768,326	0	30,015	738,311	32,188
Note Payable OWDA, payable in 50 semiannual installments of \$10,558 starting January 1, 1994, including interest at 7.21%, due July, 2018	189,795	0	7,431	182,364	7,967
Note Payable OWDA, payable in 50 semiannual installments of \$71,784 starting January 1, 1995, including interest at 6.85%, due July, 2019	1,369,836	0	49,735	1,320,101	53,142

**ALLEN WATER DISTRICT
ALLEN COUNTY**

**NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004**

NOTE I – CURRENT AND LONG-TERM DEBT-Continued

Note Payable OWDA, payable in 50 semiannual installments of \$8,149 starting July 1, 1995, including interest at 6.24%, due January, 2020	164,929	0	6,006	158,923	6,380
Note Payable OWDA, payable in 50 semiannual installments of \$6,948 starting January 1, 1995, including interest at 6.51%, due July, 2019	135,636	0	5,065	130,571	5,395
Note Payable OWDA, payable in 50 semiannual installments of \$11,650 starting January 1, 1995, including interest at 5.9%, due July, 2019	237,099	0	9,312	227,787	9,861
Note Payable OWDA, payable in 50 semiannual installments of \$6,391 starting January 1, 1996, including interest at 6.72%, due July, 2020	127,247	0	4,231	123,016	4,515
Note Payable OWDA, payable in 50 semiannual installments of \$29,635 starting January 1, 1997, including interest at 6.72%, due July, 2021	608,446	0	18,383	590,063	19,618
Note Payable OWDA, payable in 50 semiannual installments of \$6,106 starting January 1, 1998, including interest at 5.94%, due July, 2023	138,826	0	3,965	134,861	4,201

**ALLEN WATER DISTRICT
ALLEN COUNTY**

**NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004**

NOTE I – CURRENT AND LONG-TERM DEBT-Continued

<p>Note Payable OWDA, payable in 50 semiannual installments of \$4,394 starting July 1, 1999, including interest at 6.32%, due January, 2024</p>	99,422	0	2,504	96,918	2,662
<p>Note Payable OWDA, payable in 50 semiannual installments of \$22,602 starting July 1, 1999, including interest at 5.66%, due January, 2024</p>	540,116	0	14,633	525,483	15,461
<p>Note Payable OWDA, payable in 50 semiannual installments of \$16,091 starting January 1, 2000, including interest at 5.54%, due July, 2024</p>	393,679	0	10,372	383,307	10,946
<p>Note Payable OWDA, payable in 50 semiannual installments of \$5,095 starting July 1, 2001, including interest at 5.77%, due January, 2026</p>	127,490	0	2,874	124,616	3,043
<p>Note Payable OWDA, payable in 50 semiannual installments of \$6,886 starting July 1, 2001, including interest at 6.13%, due January, 2026</p>	166,912	0	3,594	163,318	3,818
<p>Note Payable OWDA, payable in 50 semiannual installments of \$6,650 starting July 1, 2001, including interest at 6.13%, due January, 2026</p>	161,189	0	3,471	157,718	3,687

**ALLEN WATER DISTRICT
ALLEN COUNTY**

**NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004**

NOTE I – CURRENT AND LONG-TERM DEBT-Continued

Note Payable OWDA, payable in 50 semiannual installments of \$25,851 starting July 1, 2001, including interest at 6.41%, due January, 2026	611,544	0	12,702	598,842	13,529
 Note Payable OWDA, payable in 50 semiannual installments of \$3,104 starting July 1, 2001, including interest at 6.39%, due January, 2026	 73,567	 0	 1,532	 72,035	 1,631
 Note Payable OWDA, payable in 50 semiannual installments of \$7,864 starting January 1, 2004, including interest at 4.28%, due July, 2028	 400,791	 0	 166,306	 234,485	 5,753
 Note Payable OWDA, payable in 50 semiannual installments of \$6,226 starting January 1, 2004, including interest at 4.28%, due July, 2028	 232,521	 0	 46,888	 185,633	 4,554
 Note Payable OWDA, payable in 50 semiannual installments of \$22,038 starting January 1, 2005, including interest at 4.16%, due July, 2029	 0	 881,070	 0	 881,070	 215,980
 Ohio Water & Sewer Rotary See additional documentation below	 275,335	 0	 0	 275,335	 0
 Compensated Absences	 259	 269	 259	 269	 269
	<u>\$ 8,436,455</u>	<u>\$ 881,339</u>	<u>\$ 462,119</u>	<u>\$ 8,855,675</u>	<u>\$ 492,182</u>

**ALLEN WATER DISTRICT
ALLEN COUNTY**

**NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004**

NOTE I – CURRENT AND LONG-TERM DEBT - Continued

	<u>Balance 12/31/04</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 12/31/05</u>	<u>Due Within One Year</u>
Note Payable OWDA, payable in 50 semiannual installments of \$758 starting January 1, 1993, including interest at 7.45%, due July, 2017	\$ 12,354	\$ 0	\$ 596	\$ 11,758	\$ 640
Note Payable OWDA, payable in 50 semiannual installments of \$15,886 starting January 1, 1993, including interest at 7.56%, due July, 2017	256,996	0	12,304	244,692	13,234
Note Payable OWDA, payable in 50 semiannual installments of \$75,646 starting January 1, 1994, including interest at 7.54%, due July, 2018	1,281,299	0	54,682	1,226,617	58,805
Note Payable OWDA, payable in 50 semiannual installments of \$42,821 starting January 1, 1994, including interest at 7.24%, due July, 2018	738,311	0	32,188	706,123	34,518
Note Payable OWDA, payable in 50 semiannual installments of \$10,558 starting January 1, 1994, including interest at 7.21%, due July, 2018	182,364	0	7,967	174,397	8,542
Note Payable OWDA, payable in 50 semiannual installments of \$71,784 starting January 1, 1995, including interest at 6.85%, due July, 2019	1,320,101	0	53,142	1,266,959	56,782

**ALLEN WATER DISTRICT
ALLEN COUNTY**

**NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004**

NOTE I – CURRENT AND LONG-TERM DEBT-Continued

Note Payable OWDA, payable in 50 semiannual installments of \$8,149 starting July 1, 1995, including interest at 6.24%, due January, 2020	158,923	0	6,380	152,543	6,779
 Note Payable OWDA, payable in 50 semiannual installments of \$6,948 starting January 1, 1995, including interest at 6.51%, due July, 2019	 130,571	 0	 5,395	 125,176	 5,746
 Note Payable OWDA, payable in 50 semiannual installments of \$11,650 starting January 1, 1995, including interest at 5.9%, due July, 2019	 227,787	 0	 9,861	 217,926	 10,443
 Note Payable OWDA, payable in 50 semiannual installments of \$6,391 starting January 1, 1996, including interest at 6.72%, due July, 2020	 123,016	 0	 4,515	 118,501	 4,818
 Note Payable OWDA, payable in 50 semiannual installments of \$29,635 starting January 1, 1997, including interest at 6.72%, due July, 2021	 590,063	 0	 19,618	 570,445	 20,936
 Note Payable OWDA, payable in 50 semiannual installments of \$6,106 starting January 1, 1998, including interest at 5.94%, due July, 2023	 134,861	 0	 4,201	 130,660	 4,450
 Note Payable OWDA, payable in 50 semiannual installments of \$4,394 starting July 1, 1999, including interest at 6.32%, due January, 2024	 96,918	 0	 2,662	 94,256	 2,831

**ALLEN WATER DISTRICT
ALLEN COUNTY**

**NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004**

NOTE I – CURRENT AND LONG-TERM DEBT-Continued

Note Payable OWDA, payable in 50 semiannual installments of \$22,602 starting July 1, 1999, including interest at 5.66%, due January, 2024	525,483	0	15,461	510,022	16,336
 Note Payable OWDA, payable in 50 semiannual installments of \$16,091 starting January 1, 2000, including interest at 5.54%, due July, 2024	 383,307	 0	 10,946	 372,361	 11,553
 Note Payable OWDA, payable in 50 semiannual installments of \$5,095 starting July 1, 2001, including interest at 5.77%, due January, 2026	 124,616	 0	 3,043	 121,573	 3,221
 Note Payable OWDA, payable in 50 semiannual installments of \$6,886 starting July 1, 2001, including interest at 6.13%, due January, 2026	 163,318	 0	 3,818	 159,500	 4,055
 Note Payable OWDA, payable in 50 semiannual installments of \$6,650 starting July 1, 2001, including interest at 6.13%, due January, 2026	 157,718	 0	 3,687	 154,031	 3,916
 Note Payable OWDA, payable in 50 semiannual installments of \$25,851 starting July 1, 2001, including interest at 6.41%, due January, 2026	 598,842	 0	 13,529	 585,313	 14,411
 Note Payable OWDA, payable in 50 semiannual installments of \$3,104 starting July 1, 2001, including interest at 6.39%, due January, 2026	 72,035	 0	 1,631	 70,404	 1,737

**ALLEN WATER DISTRICT
ALLEN COUNTY**

**NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004**

NOTE I – CURRENT AND LONG-TERM DEBT-Continued

Note Payable OWDA, payable in 50 semiannual installments of \$7,864 starting January 1, 2004, including interest at 4.28%, due July, 2028	234,485	0	5,753	228,732	6,002
 Note Payable OWDA, payable in 50 semiannual installments of \$6,226 starting January 1, 2004, including interest at 4.28%, due July, 2028	 185,633	 0	 4,554	 181,079	 4,752
 Note Payable OWDA, payable in 50 semiannual installments of \$22,038 starting January 1, 2005, including interest at 4.16%, due July, 2029	 881,070	 0	 215,980	 665,090	 16,578
 Note Payable OWDA, payable in 50 semiannual installments of \$3,182 starting January 1, 2006, including interest at 4.0%, due July, 2030	 0	 129,569	 0	 129,569	 31,958
 Ohio Water & Sewer Rotary See additional documentation below	 275,335	 0	 0	 275,335	 0
 Compensated Absences	 269	 307	 269	 307	 307
	<u>\$ 8,855,675</u>	<u>\$ 129,876</u>	<u>\$ 492,182</u>	<u>\$ 8,493,369</u>	<u>\$ 343,350</u>

**ALLEN WATER DISTRICT
ALLEN COUNTY**

**NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004**

NOTE I – CURRENT AND LONG-TERM DEBT-Continued

Ohio Water and Sewer Rotary Commission - AWD has obtained six loans from the Ohio Water and Sewer Rotary Commission for the construction of water lines. These loans provide funding assistance for that portion of the project for which collections of assessments from certain owners of underdeveloped property located within an agricultural district are exempted pursuant to Section 929.03 of the Ohio Revised Code, subject to the performance of certain terms and conditions of repayment.

As part of the agreement, whenever the use of the agricultural land changes, the full amount of the assessment is to be charged for the portion of the property that was exempted under Section 929.03 of the Ohio Revised Code, and repayment is required to be made to the Ohio Water and Sewer Rotary Commission.

If the loan is not repaid within one year of the land use change, the interest rate will be the 20-bond index rate, as quoted in the latest edition of “The Bond Buyer” minus 4% per annum or 5% per annum, which ever is greater.

OWDA Loans - The OWDA loans payable represent amounts borrowed from the Ohio Water Development Authority for the construction of water lines. The loans will be paid through property assessments.

Future principal and interest payments on all O.W.D.A. loans are as follows:

Year Ending December 31,	OWDA Loans		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 343,043	\$ 493,551	\$ 836,594
2007	334,107	498,480	832,587
2008	356,127	476,460	832,587
2009	379,629	452,958	832,587
2010	404,714	553,872	958,586
2011-2015	2,463,289	1,695,360	4,158,649
2016-2020	2,568,360	783,630	3,351,990
2021-2025	1,054,298	222,150	1,276,448
2026-2030	314,160	25,903	340,063
Total	<u>\$ 8,217,727</u>	<u>\$ 5,202,364</u>	<u>\$13,420,091</u>

Inter-project Loans - During 1997, AWD utilized excess prepaid assessment and tap fee monies collected for completed projects to fund planning and construction costs of newer projects. These project loans are the responsibility of AWD. The total costs for these funded newer projects, including calculated interest, are assessed to the consumers of each respective project. As assessment monies, tap fees for unassessed properties, and district fee revenues are received from these newer projects, it is AWD’s intent that the respective debt will be repaid to the projects from which the money was borrowed.

**ALLEN WATER DISTRICT
ALLEN COUNTY**

**NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004**

NOTE J – DEFINED BENEFIT RETIREMENT PLAN

- A. The Ohio Public Employees Retirement System (OPERS) administers three separate pension plans as described below:
- 1) The Traditional Pension Plan – a cost-sharing, multiple-employer defined benefit pension plan.
 - 2) The Member-Directed Plan – a defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20% per year). Under the Member-Directed Plan, members accumulate retirement assets equal to the value of member and (vested) employer contributions, plus any investment earnings.
 - 3) The Combined Plan – a cost-sharing, multiple-employer defined benefit pension plan. Under the Combined Plan, employer contributions are invested by OPERS 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.
- B. OPERS provides retirement, disability, survivor and death benefits and annual cost-of-living adjustments to members of the Traditional Pension and Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits.
- C. Authority to establish and amend benefits is provided in Chapter 145 of the Ohio Revised Code.
- D. OPERS issues a stand-alone financial report. Interested parties may obtain a copy by making a written request to OPERS, 277 East Town Street, Columbus, Ohio 43215-4642, or by calling (614) 222-6701 or 1-800-222-7377.
- E. The Ohio Revised Code provides statutory authority for member and employer contributions. For 2005, member and employer contribution rates were consistent across all three plans. Separate divisions for law enforcement and public safety exist only within the Traditional Pension Plan.

The 2005 member contribution rates were 8.5% for members in state and local classifications. Members in the law enforcement classification, which consists generally of sheriffs, deputy sheriffs and township police, contributed at a rate of 10.1%. Public safety division members contributed at 9%.

The 2005 employer contribution rate for state employers was 13.31% of covered payroll. For local government employer units, the rate was 13.55% of covered payroll. For both the law enforcement and public safety divisions, the employer contribution rate for 2005 was 16.7%.

The AWD's contributions to OPERS for the years ended December 31, 2005, 2004, and 2003, were \$5,265, \$5,351, and \$5,163, respectively.

**ALLEN WATER DISTRICT
ALLEN COUNTY**

**NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004**

NOTE K – POST-EMPLOYMENT BENEFITS

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

OPERS provides retirement, disability, and survivor benefits as well as post-retirement health care coverage to qualifying members of both the Traditional Pension and the Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits, including post-employment health care coverage.

In order to qualify for post-retirement 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 12.

A portion of each employer's contribution to OPERS is set aside for the funding of post-retirement health care. The Ohio Revised Code provides statutory authority for employer contributions. For local government employer units, the rate was 13.55% of covered payroll for both fiscal years 2005 and 2004; 4.0% was used to fund health care for the years 2005 and 2004.

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

- C. Summary of Assumptions:

Actuarial Review – The assumptions and calculations below were based on OPERS' latest actuarial review, performed as of December 31, 2004.

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 annually.

Investment Return – The investment assumption rate for 2004 was 8.00%.

Active Employee Total Payroll – An annual increase of 4.00%, compounded annually, is the base portion of the 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 from 0.50% to 6.30%.

**ALLEN WATER DISTRICT
ALLEN COUNTY**

**NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004**

NOTE K – POST-EMPLOYMENT BENEFITS - Continued

Health Care – Health care costs were assumed to increase at the projected wage inflation rate plus an additional factor ranging from 1% to 6% for the next 8 years. In subsequent years (9 and beyond), health care costs were assumed to increase at 4% (the projected wage inflation rate).

D. OPEBs are advance-funded on an actuarially determined basis. The following disclosures are required:

1. The number of active contributing participants in the Traditional Pension and Combined Plans totaled 376,109 for 2005 and 355,287 for 2004.
2. The employer contributions that were used to fund postemployment benefits were \$11,799 for 2005 and \$11,661 for 2004.
3. The amount of \$10.8 billion represents the actuarial value of OPERS' net assets available for OPEB at December 31, 2004.
4. The Actuarial Valuation as of December 31, 2004, reported the actuarially accrued liability and the unfunded actuarial accrued liability for OPEB, based on the actuarial cost method used, at \$29.5 billion and \$18.7 billion, respectively.

E. OPERS Retirement Board Adopts a Health Care Preservation Plan:

On September 9, 2004 the OPERS Retirement Board adopted a Health Care Preservation Plan (HCPP) with an effective date of January 1, 2007. In addition to the HCPP, OPERS has taken additional action to improve the solvency of the Health Care Fund in 2005 by creating a separate investment pool for health care assets. As an additional component of the HCPP, member and employer contribution rates increased as of January 1, 2006, which will allow additional funds to be allocated to the health care plan.

NOTE L – LEASE COMMITMENT AND TOTAL RENT EXPENSE

The AWD leases their office building on a month-to-month lease. The lease provides that the lessee pay monthly rental of \$600. The total rental expense for 2005 and 2004 was \$7,200 and \$7,200, respectively.

**ALLEN WATER DISTRICT
ALLEN COUNTY**

**NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004**

NOTE M – CHANGE IN ACCOUNTING PRINCIPLES

For fiscal year 2005, AWD has implemented GASB Statement No. 40, “Deposit and Investment Risk Disclosures,” and GASB Statement No. 46, “Net Assets Restricted by Enabling Legislation.”

GASB Statement No. 40 addresses common deposit and investment risks related to credit risk, concentration of credit risk, interest rate risk and foreign currency risk. The implementation of this statement had no effect on the AWD’s financial statements for fiscal year 2005.

GASB Statement No. 46 clarifies how legal enforceability should be applied for determining restricted net assets. The implementation of this new statement had no effect on AWD’s financial statements for fiscal year 2005.

GASB Statement No. 34, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments, GASB Statement No. 37, Basic Financial Statements and Management’s Discussion and Analysis for State and Local Governments: Omnibus, GASB Statement No. 38, Certain Financial Statement Note Disclosures, and GASB Interpretation No. 6, Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements were adopted by the District effective January 1, 2004. GASB 34 creates new basic financial statements for reporting on the District’s financial activities. The financial statements now include statements of net assets, statements of revenues, expenses and changes in net assets, and statements of cash flows all prepared on the accrual basis of accounting.

GASB Statement No. 42, “Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries” was implemented by the AWD effective January 1, 2004. GASB 42 establishes accounting and financial reporting standards for impairment of capital assets. The implementation of this statement resulted in a restatement of beginning net assets, as noted in Note N, for the impairment of planning costs for projects that were not constructed.

**ALLEN WATER DISTRICT
ALLEN COUNTY**

**NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004**

NOTE N – CORRECTION OF AN ERROR

In prior years, the AWD capitalized and amortized planning costs for projects that were not constructed. This method was not in accordance with generally accepted accounting principles.

During the year ended December 31, 2004, the AWD retroactively changed its method of accounting for impaired capital assets to writing them down to their fair value, which is in accordance with generally accepted accounting principles.

The financial statements for the year ended December 31, 2004, have been retroactively restated for this change and the portion of the adjustment applicable to the year ended December 31, 2003, and prior years in the amount of (\$308,944) has been treated as a retroactive restatement of the December 31, 2003 net assets balance as follows:

	<u>2004</u>
NET ASSETS, beginning, as previously reported	\$ 9,625,178
DEDUCT adjustment applicable to prior years	<u>(308,944)</u>
NET ASSETS, beginning as restated	<u><u>\$ 9,316,234</u></u>

We're Ready For Your Future

July 28, 2006

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

Board of Trustees
Allen Water District
2500 Shawnee Rd., Ste. C
Lima, Ohio 45806

We have audited the financial statements of the business-type activity of the Allen Water District as of and for the years ended December 31, 2005 and 2004, which collectively comprise the Allen Water District's basic financial statements and have issued our report thereon dated July 28, 2006. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Allen Water District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our 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 reportable 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 caused by error or fraud 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. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted certain matters that we have reported to management of the Allen Water District in a separate letter dated July 28, 2006.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Allen Water District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, 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 our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of noncompliance that we have reported to management of the Allen Water District in a separate letter dated July 28, 2006.

This report is intended solely for the information and use of the Allen Water District audit committee, management, and the Ohio Auditor of State and is not intended to be and should not be used by anyone other than those specified parties.

Rea & Associates, Inc.



**Auditor of State
Betty Montgomery**

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ALLEN WATER DISTRICT

ALLEN 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
DECEMBER 7, 2006**