

FINANCIAL STATEMENTS AND AUDITOR'S REPORTS

Le-Ax Water District

For the Year Ended December 31, 2004

William Kenneth Yoho II
Certified Public Accountant

Post Office Box 521, Belpre, Ohio 45714-0521 Phone/Fax: (740) 989-5220



**Auditor of State
Betty Montgomery**

Board of Directors
Le-Ax Water District
P. O. Box 97
The Plains, Ohio 45780

We have reviewed the *Independent Auditor's Report* of the Le-Ax Water District, Athens County, prepared by William Kenneth Yoho II, CPA, for the audit period January 1, 2004 through December 31, 2004. 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 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

March 30, 2006

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Le-Ax Water District
 Elected Officials and Administrative Personnel
 For the Year Ended December 31, 2004

<u>ELECTED OFFICIAL</u>	<u>TITLE</u>	<u>TERM EXPIRES</u>
W. Richard Shaw	President	2006
Bernard Gruesser	Vice-president	2008
M. Scott Nisley	Secretary/Treasurer	2007
David Perry	Member	2009
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

Legal Counsel

Adam J. Baker, Attorney at Law
 8 North Court Street, Suite 212
 Athens, Ohio 45701

<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
Jennifer Bolin	Financial/Clerical	Continuing

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 Trustees:

I have audited the accompanying basic financial statements of the business-type activities of Le-Ax Water District, Athens County, Ohio, (the District) as of and for the year ended December 31, 2004, as listed in the table of contents. These basic financial statements are the responsibility of the District's management. My responsibility is to express an opinion on these basic financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. 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 the 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 basic financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of Le-Ax Water District as of December 31, 2004, and the respective changes in financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The District has not presented Management's Discussion and Analysis, which accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the basic financial statements.

Keeping service first in a service industry.
P. O. Box 521, Belpre, Ohio 45714-0521 Phone/Fax: (740) 989-5220

Independent Auditor's Report
For Audit of the Year Ended December 31, 2004
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In accordance with *Government Auditing Standards*, I have also issued a report dated July 26, 2005, 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, grant agreements, and other matters. 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.

My audit was conducted for the purpose of forming an opinion on the basic financial statements of the business-type activities of Le-Ax Water District. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis and is not a required part of the basic financial statements. The schedule of expenditures of federal awards has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in my opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

As described in Note 9 to the basic financial statements, the District implemented Government Accounting Standards Board (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 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 Government Fund Financial Statements*.

A handwritten signature in blue ink that reads "Wm. K. Yoho II, CPA". The signature is written in a cursive style and is positioned above a light yellow rectangular background.

William Kenneth Yoho II
Certified Public Accountant
July 26, 2005

Le-Ax Water District
Statement of Net Assets
December 31, 2004

ASSETS

ASSETS:	
Cash and Cash Equivalents	\$ 46,649
Investments	2,359,614
Accounts Receivable - Water Billings	246,561
Inventories	146,703
Prepaid Expenses	31,149
Capital Assets (net of accumulated depreciation)	16,483,983
Organizational Expense (net of accumulated amortization)	<u>34,963</u>
TOTAL ASSETS	<u>\$ 19,349,622</u>

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES:	
Accounts Payable	\$ 34,033
Accrued Wages and Compensated Leave	123,749
Accrued Payroll Deductions	21,442
Accrued Interest Payable	271,957
Current portion of long-term debt (Note 5)	<u>144,587</u>
TOTAL CURRENT LIABILITIES	<u>595,768</u>
LONG-TERM LIABILITIES:	
Long-term Notes Payable (Note 5)	<u>8,555,406</u>
TOTAL LONG-TERM LIABILITIES	<u>8,555,406</u>
NET ASSETS: (Note 9)	
Invested in Capital Assets, Net of Related Debt	7,783,990
Restricted Net Assets	572,105
Unrestricted Net Assets	<u>1,842,353</u>
TOTAL NET ASSETS	<u>10,198,448</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 19,349,622</u>

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

Le-Ax Water District
Statement of Revenues, Expenses, and Changes in Net Assets
For the Year Ended December 31, 2004

OPERATING REVENUES:	
Water Sales	\$ 2,484,659
Tap Fees	177,200
Miscellaneous Income	<u>30,073</u>
 Total Operating Revenues	 <u>2,691,932</u>
 OPERATING EXPENSES:	
Plant Expense	170,848
Office Expense	63,781
Employee Expense	958,792
Professional Services	93,273
Utilities	179,167
Repairs and Maintenance	335,559
Vehicle Expense	30,648
Depreciation and Amortization	563,646
Miscellaneous	<u>17,643</u>
 Total Operating Expenses	 <u>2,413,357</u>
 Operating Income (Loss)	 <u>278,575</u>
 NON-OPERATING REVENUES AND EXPENSES:	
Interest Income	41,007
Interest Expense	<u>(305,125)</u>
 Total Non-Operating Revenues and Expenses	 <u>(264,118)</u>
 Net Income (Loss) Before Contributions	 <u>14,457</u>
 CAPITAL CONTRIBUTIONS:	
ARC/CDBG Pass-through Grants	633,416
USDA/RD Grant	<u>232,400</u>
 Total Capital Contributions	 <u>865,816</u>
 Net Income (Loss) for the Year	 880,273
 Net Assets, Beginning of Year (See Note 9)	 <u>962,080</u>
 Net Assets, End of Year	 <u>\$ 1,842,353</u>

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

Le-Ax Water District
Statement of Cash Flows
For the Year Ended December 31, 2004

CASH FLOWS FROM OPERATIONS:

Cash receipt items:

Water sales	\$ 2,458,326
Tap fees	177,200
Miscellaneous income	<u>30,073</u>

Total operating cash in-flows 2,665,599

Cash disbursement items:

Plant expenses	(172,547)
Office expenses	(63,781)
Employee expenses	(935,078)
Professional services	(93,273)
Utilities	(179,167)
Repairs and maintenance	(339,882)
Vehicle expenses	(30,648)
Miscellaneous expenses	<u>(17,642)</u>

Total operating cash out-flows (1,832,018)

Net cash provided by operating activities 833,581

CASH FLOWS FROM INVESTING ACTIVITIES:

Proceeds from sale of investments	331,911
Interest earned on investments	<u>41,007</u>

Net cash provided by non-capital financing 372,918

CASH FLOWS FROM CAPITAL AND CAPITAL-RELATED ACTIVITIES:

Aid in construction	633,416
Proceeds from capital grant	232,400
Acquisition and construction of capital assets	(3,119,134)
Proceeds of USDA/RD bonds issued	1,476,000
Principal paid on long-term debt	(139,692)
Interest paid	<u>(309,055)</u>

Net cash used by capital-related financing (1,226,065)

Net increase in cash and cash equivalents (19,566)

Cash and cash equivalents, beginning of year 66,215

Cash and cash equivalents, end of year \$ 46,649

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

Le-Ax Water District
Statement of Cash Flows
For the Year Ended December 31, 2004

RECONCILIATION OF OPERATING INCOME TO
NET CASH PROVIDED BY OPERATING ACTIVITIES:

Operating income	\$ 278,575
Depreciation and amortization	563,646
Increase in accounts receivable	(26,333)
Increase in prepaid expenses	(1,699)
Decrease in inventory	93
Decrease in accounts payable	(4,322)
Increase in payroll-related liabilities	23,714
Decrease in interest payable	(4,023)
Increase in current portion of long-term payables	<u>3,930</u>
Net cash provided by operating activities	<u>\$ 833,581</u>

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

Le-Ax Water District
Notes to Financial Statements
For the Year Ended December 31, 2004

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 has exercised its authority to issue revenue bonds and notes, which are payable from the revenues of the District, to finance the cost of projects that benefit the District and its customers. The District is also authorized to levy taxes for the current expenses of the District or for the issuance of bonds upon approval of a majority of the electorate. The District may also assess real estate for certain improvements and issue bonds in anticipation of the collection of such special assessments. The District has not exercised these taxing powers. The District operates under the direction of a five-member board of trustees. An appointed staff consisting of a general manager, superintendent, and three 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 financial reporting entity, as described by Governmental Accounting Standards Board Statement No. 14, is the "primary government." A fundamental characteristic of a primary government is that it is a fiscally independent entity. In evaluating how to define the financial reporting entity, management has considered all potential component units. A component unit is a legally separate entity for which the primary government is financially accountable. The criteria of financial accountability are the ability of the primary government to impose its will upon the potential component unit. These criteria were considered in determining the reporting entity. The District does not have financial accountability over any entities; i.e. there are no component units. Furthermore, as a political subdivision, the District is distinct from, and is not an agency of, the State of Ohio or any other local governmental unit. The District is not subject to federal, state, or local income taxes.

Note 2. Summary of Significant Accounting Policies

The financial statements of the District have been prepared in conformity with accounting principles generally accepted in the United States of America (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 after November 30, 1989, to its business-type activities provided those standards do not conflict with or contradict GASB pronouncements. The significant portions of the District's accounting policies are described below.

Le-Ax Water District
Notes to Financial Statements
For the Year Ended December 31, 2004
Continued

Note 2. Summary of Significant Accounting Policies (continued)

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.

Basis of Accounting

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. All transactions of the District are accounted for in a single enterprise fund. All assets and all liabilities associated with the operation of the District are included on the statement of net assets. The statement of changes in net assets presents increases (i.e., revenues) and (i.e., expenses) in net total assets. The statement of cash flows provides information about how the District finances and meets the cash flow needs of its enterprise activities.

Cash and Cash Equivalents

Cash and cash equivalents consist of cash on hand, checking, savings, and time deposits in financial institutions with initial maturities of three months or less.

Accounts Receivable

The District considers accounts receivable to be fully collectible; accordingly, no allowance for doubtful accounts is included in the financial statements. When amounts are deemed uncollectible, they are expensed in the year in which that determination is made.

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 expensed at the time individual inventory items are consumed, if they are used for repairs and/or maintenance. The cost is capitalized if the inventory items are used to install taps for new water users or otherwise expand the system.

Prepaid Expenses

Payments made to vendors for services that will benefit periods beyond the applicable fiscal year ended December 31, 2004 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 period in which those services are consumed.

Capital Assets and Depreciation

Capital 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 received and 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 capital assets of the District is calculated utilizing the straight-line method over the estimated useful life of each asset. All assets reported in the financial statements are at

Le-Ax Water District
Notes to Financial Statements
For the Year Ended December 31, 2004
Continued

Note 2. Summary of Significant Accounting Policies (continued)

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 capital 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

Compensated Absences

In accordance with GASB Statement No. 16, *Accounting for 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 year. 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.

Revenues and Expenses

Operating revenues and expenses result from supplying potable water to District residents and businesses. Operating revenues consist primarily of user charges for water based on the amount consumed. Operating expenses include the cost of providing water to District residents and businesses, including administrative expenses and depreciation of capital assets. Nonoperating revenues and expenses are all revenues and expenses not meeting the definition of operating revenues and expenses. Nonoperating revenues and expenses include revenues and expenses from capital and related financing activities, and from investing activities.

Le-Ax Water District
Notes to Financial Statements
For the Year Ended December 31, 2004
Continued

Note 2. Summary of Significant Accounting Policies (continued)

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.

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.

Budgetary Process

The Ohio Revised Code requires the District, to budget its funds, through adoption of an operating budget by July 15 of each year for the following fiscal year. The operating budget includes estimates for total revenues, total expenses, and debt service requirements for the fiscal year. The District prepares its operating budget on the accrual basis of accounting, the same basis on which its financial statements are prepared.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the basic 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 the following categories:

Cash on hand As of year end, the District had \$175 in undeposited cash on hand to use as a change fund for walk-in, cash-paying customers. This amount is included on the District's statement of financial position as part of "cash and cash equivalents."

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. The District had \$1,645,486 in active deposits at year-end.

Le-Ax Water District
Notes to Financial Statements
For the Year Ended December 31, 2004
Continued

Note 3. Deposits and Investments (continued)

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. The District had \$760,602 in inactive deposits at year-end.

Interim deposits are deposits of interim monies. Interim monies are those monies, which are not needed for immediate use but which may 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 accounts, including passbook accounts. The District had no interim deposits at year-end.

Protection of the District's deposits is provided by the Federal Deposit Insurance Corporation (FDIC), by eligible securities pledged by the financial institution as security for repayment, by surety company bonds deposited with the District 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.

State statutes permit monies to 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;
5. 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 these types of investments are made only through eligible institutions;
6. The State Treasurer's investment pool (STAR Ohio);

Le-Ax Water District
Notes to Financial Statements
For the Year Ended December 31, 2004
Continued

Note 3. Deposits and Investments (continued)

7. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred and eighty days in an amount not to exceed twenty-five percent of the interim moneys available for investment at any one time; and,
8. Under limited circumstances, debt interests rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

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 qualified trustee or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

The following information classifies deposits and investments by categories of risk as defined in Governmental Accounting Standards Board (GASB) Statement No. 3 "Deposits with Financial Institutions (including Repurchase Agreements), and Reverse Repurchase Agreements."

Deposits At December 31, 2004, 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.

Bank balances = \$2,462,502 Book balances = \$2,406,088

Investments The District's investments are categorized to give an indication of the level of risk assumed by the District. 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. As of the year ended December 31, 2004, all of the District's investments were Category 1 items. At year-end, the District had \$2,359,614 invested in Category 1 interest bearing checking accounts, savings accounts, and/or certificates of deposit.

Le-Ax Water District
Notes to Financial Statements
For the Year Ended December 31, 2004
Continued

Note 4. Capital Assets

A summary of capital assets at December 31, 2004 is as follows:

<u>Description</u>	<u>Balances at</u> <u>31-Dec-03</u>	<u>Additions</u>	<u>Retirements</u>	<u>Transfers</u>	<u>Balances at</u> <u>31-Dec-04</u>
<u>Non-depreciable Items</u>					
Land	\$ 64,829	\$ 0	\$ 0	\$ 0	\$ 64,829
Easements	10,509	532	0	0	11,041
Construction in progress	710,938	2,584,097	0	(280,285)	3,014,750
Total Non-depreciable items	<u>786,276</u>	<u>2,584,629</u>	<u>0</u>	<u>(280,285)</u>	<u>3,090,620</u>
<u>Depreciable Items</u>					
Water plant and buildings	4,601,278	3,600	0	0	4,604,878
Water lines, tanks, wells	12,684,610	490,089	0	280,285	13,454,984
Roads, parking, fencing	47,851	0	0	0	47,851
Water meters and installation	885,754	25,672	0	0	911,426
Miscellaneous equipment	706,170	14,292	(10,892)	0	709,570
Office equipment	229,473	852	0	0	230,325
Total Depreciable Items	<u>19,155,136</u>	<u>534,505</u>	<u>(10,892)</u>	<u>280,285</u>	<u>19,959,034</u>
<u>Accumulated Depreciation</u>					
Water plant and buildings	735,794	118,190	0	0	853,984
Water lines, tanks, wells	4,048,361	320,974	0	0	4,369,335
Roads, parking, fencing	22,744	3,985	0	0	26,729
Water meters and installation	559,807	29,454	0	0	589,261
Miscellaneous equipment	490,455	64,822	(10,892)	0	544,385
Office equipment	159,959	22,018	0	0	181,977
Total accumulated depreciation	<u>6,017,120</u>	<u>559,443</u>	<u>(10,892)</u>	<u>0</u>	<u>6,565,671</u>
Capital Assets, Net	<u>\$ 13,924,292</u>	<u>\$ 2,559,691</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 16,483,983</u>

Le-Ax Water District
Notes to Financial Statements
For the Year Ended December 31, 2004
Continued

Note 5. Debt

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

Ohio Water Development Authority (OWDA) Mortgage Revenue Bonds were issued in February 1997 for the construction of various fixed assets 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. The original balance of the obligation was \$1,200,328 accruing interest charges at 2.00% per year. The debt instrument requires semi-annual payments of \$36,704 for principal and interest retirement. Refer to columns A below for further details regarding long-term debt and debt service.

United States Department of Agriculture – Rural Development (USDA/RD) Revenue Bonds were issued in February 1997 for the construction of various fixed assets 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 bonds. The original balance of the obligation was \$6,844,000 accruing interest charges at 4.50% per year. The debt instrument requires annual payments of \$375,432 for principal and interest retirement. Refer to columns B below for further details regarding long-term debt and debt service.

United States Department of Agriculture – Rural Development (USDA/RD) Revenue Bonds were issued in April 2005 for the improvement and expansion of the over-all water system through the construction of additional water lines and storage facilities. Revenue of the District has been pledged to repay these bonds. The original balance of the obligation was \$1,476,000 accruing interest charges at 4.25% per year. The debt instrument requires annual payments of \$78,155 for principal and interest repayment. Refer to columns C below for further details regarding long-term debt and debt service.

<u>Summary of Long-term Debt</u>	<u>A</u>	<u>B</u>	<u>C</u>	<u>Totals</u>
Current portion notes pay	\$ 56,747	\$ 87,840	\$ 0	\$ 144,587
Long-term portion notes pay	<u>776,314</u>	<u>6,303,092</u>	<u>1,476,000</u>	<u>8,555,406</u>
Unpaid principal at year end	<u>\$ 833,061</u>	<u>\$ 6,390,932</u>	<u>\$ 1,476,000</u>	<u>\$ 8,699,993</u>
<u>Summary of Debt Activity</u>	<u>A</u>	<u>B</u>	<u>C</u>	<u>Totals</u>
Balances as of 12-31-03	\$ 888,696	\$ 6,474,989	\$ 0	\$ 7,363,685
Plus: Additional debt	0	0	1,476,000	1,476,000
Less: Debt repayment	<u>(55,635)</u>	<u>(84,057)</u>	<u>0</u>	<u>(139,692)</u>
Balances as of 12-31-04	<u>\$ 833,061</u>	<u>\$ 6,390,932</u>	<u>\$ 1,476,000</u>	<u>\$ 8,699,993</u>

Le-Ax Water District
Notes to Financial Statements
For the Year Ended December 31, 2004
Continued

Note 5. Debt (continued)

The following chart shows the amounts required to service all loans from December 31, 2004 to maturity, including both principal and interest payments.

<u>Requirements</u>	<u>A</u>	<u>B</u>	<u>C</u>	<u>Totals</u>
Payments due in 2005	\$ 73,408	\$ 375,432	\$ 0	\$ 448,840
Payments due in 2006	73,409	375,432	59,465	508,306
Payments due in 2007	73,408	375,432	78,155	526,995
Payments due in 2008	73,409	375,432	78,155	526,996
Payments due in 2009	73,408	375,432	78,155	526,995
Payments due 2010 thru 2014	367,043	1,877,160	390,775	2,634,978
Payments due 2015 thru 2019	220,225	1,877,160	390,775	2,488,160
Payments due 2020 thru 2024	0	1,877,160	390,775	2,267,935
Payments due 2025 thru 2029	0	1,877,160	390,775	2,267,935
Payments due 2030 thru 2034	0	1,877,160	390,775	2,267,935
Payments due 2035 thru 2039	0	1,126,318	390,775	1,517,093
Payments due 2040 thru 2044	0	0	390,775	390,775
Payments due 2045 thru 2049	<u>0</u>	<u>0</u>	<u>77,160</u>	<u>77,160</u>
Totals	\$ <u>954,310</u>	\$ <u>12,389,278</u>	\$ <u>3,106,515</u>	\$ <u>16,450,103</u>

Note 6. Defined Benefit Pension Plans

District employees participate in the Ohio Public Employees Retirement System (PERS), which is a public employee retirement system created by the State of Ohio. PERS administers three separate pension plans. The Traditional Pension Plan is a cost-sharing multiple-employer defined benefit pension plan. The Member-Directed Plan is a defined contribution plan in which the member invests both member and employer contributions. Under the Member-Directed Plan, members accumulate retirement assets equal to the value of member and employer contributions plus any investment earnings. The Combined Plan is a cost-sharing multiple-employer defined benefit pension plan where the contributions are invested by the retirement system to provide a formula retirement benefit similar in nature to the Traditional 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. PERS, who administers the plan, 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. Authority to establish and amend benefits is provided by state statute per Chapter 145 of the Ohio Revised Code. PERS issues a stand-alone financial report, which may be obtained by writing to the Ohio Public Employees Retirement System, 277 East Tower Street, Columbus, Ohio 43215-4642.

Le-Ax Water District
Notes to Financial Statements
For the Year Ended December 31, 2004
Continued

Note 6. Defined Benefit Pension Plans (continued)

The Ohio Revised Code provides statutory authority for employee and employer contributions. The 2004, 2003, and 2002 employee contribution rate was 8.5% for all employees except law enforcement and public safety. The 2004, 2003, and 2002 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, 2004, 2003, and 2002 were \$87,626, \$81,778, and \$77,022, respectively. Employee contributions to PERS for the years ended December 31, 2004, 2003, and 2002 were \$54,968, \$51,299, and \$48,317, respectively. In the years ended December 31, 2004, 2003, and 2002 all required contributions were paid.

Note 7. Post-Employment Benefits

Ohio Public Employees Retirement System (PERS) provides postretirement health care coverage to qualifying members of both the Traditional and the Combined Plans. Members of the Member-Directed Plan do not qualify for post-employment health care coverage. In order to qualify for post-retirement health care coverage, age and service retirees must have 10 or more years of qualifying Ohio service credit. Health care coverage for disability recipients and primary survivor recipients is available. The health care coverage provided by the retirement system is considered an Other Post-employment 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 2003 employer contribution rate for local government employer units was 13.55% of covered payroll; 4.00% was used to fund health care.

The assumptions and calculations below were based on the System's latest actuarial review performed as of December 31, 2003.

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 2003 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 from 0.50% to 6.30%.

Le-Ax Water District
Notes to Financial Statements
For the Year Ended December 31, 2004
Continued

Note 7. 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, health care costs were assumed to increase at 4% per year.

As of December 31, 2003, the net assets available for future OPEB were \$10.5 billion. The actuarially accrued liability and the unfunded actuarial accrued liability, based on the actuarial cost method used, were \$26.9 billion and \$16.4 billion, respectively.

On September 9, 2004, the PERS Retirement Board adopted a Health Care Preservation Plan (HCPP) with an effective date of January 1, 2007. The HCPP restructures PERS' health care coverage to improve the financial solvency of the fund in response to increasing health care costs. Under HCPP, retirees eligible for health care coverage will receive a graded monthly allocation based on their years of service at retirement. The HCPP incorporates a cafeteria approach, offering a broad range of health care options that allow benefit recipients to use their monthly allocation to purchase health care coverage customized to meet their individual needs. If the monthly allocation exceeds the cost of the options selected, the excess is deposited into a Retiree Medical Account that can be used to fund future health care expenses.

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 year ended December 31, 2004, 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. Change in Accounting Principles

For the year ended December 31, 2004, Le-Ax Water District implemented Governmental Accounting Standards Board (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 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 Government Fund Financial Statements*. Implementation of these changes in accounting principles required restatement of the agency's equity accounts.

Le-Ax Water District
Notes to Financial Statements
For the Year Ended December 31, 2004
Continued

Note 9. Change in Accounting Principles (continued)

The District's beginning fund equity was restated as follows.

Fund equity per audit of the year ended December 31, 2003:

Contributed Capital	\$ 7,776,229
Retained Earnings	<u>1,541,946</u>
Total Fund Equity	<u>\$ 9,318,175</u>

Net assets restated at the beginning of the year ended December 31, 2004:

Invested in Capital Assets, Net of Related Debt	\$ 7,783,990
Restricted Net Assets	572,105
Retained Earnings	<u>962,080</u>
Total Fund Equity	<u>\$ 9,318,175</u>

Le-Ax Water District
Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2004

Federal Grantor: United States Department of Agriculture – Rural Development

Program Title: Water and Waste Disposal Systems for Rural Communities

Federal CFDA: 10.760

Expenditures: Federally-insured loans \$ 1,476,000

Grant funds \$ 232,400

Notes to Schedule of Expenditures of Federal Awards

Note A. Basis of Presentation Federal grant operations are included in the scope of the Office of Management and Budget's (OMB) Circular A-133 audit (Single Audit). The Single Audit was performed in accordance with the provisions of the OMB *Compliance Supplement for Single Audits of States, Local Government, and Non-Profit Organizations*.

LE-AX WATER DISTRICT
December 31, 2004

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*

WILLIAM KENNETH YOHO II

CERTIFIED PUBLIC ACCOUNTANT

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*

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

To the Board of Trustees:

I have audited the financial statements of Le-Ax Water District, as of and for the year ended December 31, 2004, and have issued my report thereon dated July 26, 2005, wherein I noted that the District adopted Government Accounting Standards Board Statement Numbers 34, 37, 38, and Interpretation No 6. 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.

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 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. I noted no matters involving the internal control over financial reporting and its operation that I consider to be material weaknesses as defined above. However, I noted certain matters involving the internal control financial reporting that do not require inclusion in this report that I have reported to the District's management in a separate letter dated July 26, 2005.


Keeping service first in a service industry.
P. O. Box 521, Belpre, Ohio 45714-0521 Phone/Fax: (740) 989-5220

Independent Auditor's Report in Accordance
with *Government Auditing Standards*
For Audit of the Year Ended December 31, 2004
Page Two of Two

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, I 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 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*.

This report is intended solely 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.

A handwritten signature in blue ink that reads "Wm. K. Yoho II, CPA". The signature is written in a cursive style and is placed on a light yellow rectangular background.

William Kenneth Yoho II
Certified Public Accountant
July 26, 2005

LE-AX WATER DISTRICT
December 31, 2004

REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO THE
MAJOR FEDERAL PROGRAM AND INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

WILLIAM KENNETH YOHO II

CERTIFIED PUBLIC ACCOUNTANT

REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO THE MAJOR FEDERAL PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

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

To the Board of Trustees:

Compliance

I have audited the compliance of Le-Ax Water District with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to the District's major federal program for the year ended December 31, 2004. Le-Ax Water District's major federal program is identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to the District's major federal program is the responsibility of Le-Ax Water District's management. My responsibility is to express an opinion on Le-Ax Water District's compliance based on my audit.

I conducted my audit of compliance in accordance with auditing standards generally accepted in the United States; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Nonprofit Organizations*. Those standards and OMB Circular A-133 require that I plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Le-Ax Water District's compliance with those requirements and performing other procedures as considered necessary in the circumstances. I believe that my audit provides a reasonable basis for my opinion. My audit does not provide a legal determination on Le-Ax Water District's compliance with those requirements.

Keeping service first in a service industry.
P. O. Box 521, Belpre, Ohio 45714-0521 Phone/Fax: (740) 989-5220

Independent Auditor's Report in Accordance
with OMB Circular A-133
For Audit of the Year Ended December 31, 2004
Page Two of Two

In my opinion, Le-Ax Water District complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended December 31, 2004.

Internal Control over Compliance

The management of Le-Ax Water District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing the audit, I considered Le-Ax Water District's internal control over compliance with requirements that could have a direct and material effect on its major federal program in order to determine my auditing procedures for the purpose of expressing an opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

My consideration of the internal control over compliance would not necessarily disclose all matters in the internal control 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 noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program 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 compliance and its operation that I consider to be material weaknesses.

This report is intended solely 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.

A handwritten signature in blue ink that reads "Wm. K. Yoho II, CPA". The signature is written in a cursive style and is positioned above a light yellow rectangular background.

William Kenneth Yoho II
Certified Public Accountant
July 26, 2005

LE-AX WATER DISTRICT
December 31, 2004

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Le-Ax Water District
Schedule of Findings and Questioned Costs
For the Year Ended December 31, 2004

Section I – Summary of Auditor’s Results

Financial Statements

- | | |
|--|---------------|
| 1. Type of auditor’s report issued: | Unqualified |
| 2. Internal control over financial reporting: | |
| a. Material weakness(es) identified? | No |
| b. Reportable condition(s) identified but
not considered to be material weakness(es)? | None reported |
| 3. Noncompliance material to financial statements noted? | No |

Federal Awards

- | | |
|---|---------------|
| 1. Internal control over major program: | |
| a. Material weakness(es) identified? | No |
| b. Reportable condition(s) identified but
not considered to be material weakness(es)? | None reported |
| 2. Type of auditor’s report issued on compliance for
major program? | Unqualified |
| 3. Any audit findings disclosed that are required to be
reported in accordance with section 510(a)
of OMB Circular A-133? | No |

Identification of Major Program

- | | | |
|--|--|-----------|
| 1. CFDA number | 10.760 – Water and Waste Water Systems | |
| 2. Dollar threshold used to distinguish between
type A and type B programs? | | \$300,000 |
| 3. Client qualified as a low-risk auditee | | No |

Section II – Financial Statement Findings

No matters reported

Section III – Federal Award Findings and Questioned Costs

No matters were reported

Section IV – Schedule of Status of Prior Year Audit Findings

No matters were reported



**Auditor of State
Betty Montgomery**

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P.O. Box 1140
Columbus, Ohio 43216-1140

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800-282-0370

Facsimile 614-466-4490

LE-AX 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
APRIL 11, 2006**