

FINANCIAL STATEMENTS AND AUDITOR'S REPORTS

Le-Ax Water District

For the Year Ended December 31, 2003

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, 2003 through December 31, 2003. 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, 2003

<u>ELECTED OFFICIAL</u>	<u>TITLE</u>	<u>TERM EXPIRES</u>
W. Richard Shaw	President	2006
Bernard Grueser	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

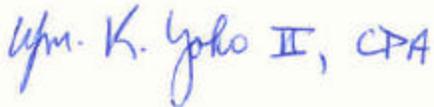
To the Board of Trustees:

I have audited the accompanying statement of financial position of Le-Ax Water District, Athens County, Ohio, (the District) as of December 31, 2003, and the related statements of revenues, expenses, and changes in fund equity and cash flows for the year then ended. These financial statements are the responsibility of the District's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States 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 I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Le-Ax Water District as of December 31, 2003, and the changes in its fund equity and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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. The purpose of that report is to describe the scope of my 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 read in conjunction with this report in considering the results of my audit.



William Kenneth Yoho II
Certified Public Accountant
July 26, 2005

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

Le-Ax Water District
Statement of Financial Position
December 31, 2003

ASSETS

ASSETS:	
Cash and Cash Equivalents	\$ 66,215
Investments	2,691,525
Accounts Receivable - Water Billings	220,228
Inventories	146,796
Prepaid Expenses	29,450
Fixed Assets	
(net of accumulated depreciation)	13,924,292
Organizational Expense	
(net of accumulated amortization)	<u>39,166</u>
TOTAL ASSETS	<u>\$ 17,117,672</u>

LIABILITIES AND FUND EQUITY

LIABILITIES:	
Accounts Payable	\$ 38,356
Accrued Wages and Compensated Leave	102,186
Accrued Payroll Deductions	19,291
Accrued Interest Payable	275,980
OWDA Mortgage Revenue Bonds	888,695
USDA/RD Revenue Bonds	<u>6,474,989</u>
TOTAL LIABILITIES	<u>7,799,497</u>
FUND EQUITY:	
Contributed Capital	7,776,229
Retained Earnings	<u>1,541,946</u>
TOTAL FUND EQUITY	<u>9,318,175</u>
TOTAL LIABILITIES AND FUND EQUITY	<u>\$ 17,117,672</u>

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

Le-Ax Water District
Statement of Revenues, Expenses, and Changes in Fund Equity
For the Year Ended December 31, 2003

OPERATING REVENUES:	
Charges for Services	\$ <u>2,482,763</u>
 Total Operating Revenues	 <u>2,482,763</u>
 OPERATING EXPENSES:	
Plant Expense	149,343
Office Expense	52,370
Employee Expense	874,112
Professional Services	146,489
Utilities	171,362
Repairs and Maintenance	214,400
Vehicle Expense	33,696
Depreciation and Amortization	501,322
Miscellaneous	<u>27,251</u>
 Total Operating Expenses	 <u>2,170,345</u>
 Operating Income (Loss)	 <u>312,418</u>
 NON-OPERATING REVENUES AND EXPENSES:	
Interest Income	53,202
Interest Expense	(313,859)
Miscellaneous Income	<u>31,003</u>
 Total Non-Operating Revenues and Expenses	 <u>(229,654)</u>
 Net Income (Loss) for the Year	 82,764
 Fund Equity, Beginning of Year	 <u>1,459,182</u>
 Fund Equity, End of Year	 <u>\$ 1,541,946</u>

Refer both to 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, 2003

Cash flows from operating activities:

Operating income \$ 312,418

Adjustments to reconcile operating activities:

Depreciation and amortization	501,322
(Increase)decrease in accounts receivable	18,318
(Increase)decrease in prepaid expenses	(11,076)
(Increase)decrease in inventories	(55,085)
Increase(decrease) in accounts payable	(8,797)
Increase(decrease) in accrued liabilities	13,359
Increase(decrease) in interest payable	<u>(31,136)</u>

Total adjustments 426,905

Net cash provided by operating activities 739,323

Cash flows from non-capital financing activities:

Miscellaneous non-operating income 31,003

Net cash provided by non-capital financing 31,003

Cash flows from capital-related financing activities:

Acquisition of fixed assets	(241,309)
Principal paid on OWDA note	(27,272)
Interest paid on OWDA note	(18,865)
Principal paid on USDA/RD note	(80,437)
Interest paid on USDA/RD note	<u>(294,994)</u>

Net cash used by capital-related financing (662,877)

Cash flows from investing activities:

Increase in investments	(182,051)
Interest earned on investments	<u>53,202</u>

Net cash used by investing activities (128,849)

Net decrease in cash and cash equivalents (21,400)

Cash and cash equivalents, beginning of year (See Note 3) 87,615

Cash and cash equivalents, end of year \$ 66,215

Refer both to 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, 2003

Note 1. Reporting Entity

The Le-Ax Water District (the District) is a water district organized under the provisions of Chapter 6119 of the Revised Code by the Common Pleas Court of Athens County, Ohio, on February 6, 1981. The District operates under the direction of a five-member board of directors. An appointed staff consisting of a general manager, superintendent, and 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 reporting entity is comprised of the primary government, component units, and other organizations that are included to insure that the financial statements are not misleading. The primary government of the District consists of all funds, departments, boards, and agencies that are not legally separate from the District. For Le-Ax Water District, this consists of general operations only.

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

Note 2. Summary of Significant Accounting Policies

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

Le-Ax Water District
Notes to Financial Statements
For the Year Ended December 31, 2003
Continued

Note 2. Summary of Significant Accounting Policies (continued)

A. Basis of Accounting (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.

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 assets and all liabilities associated with the operation of the District are included on the statement of financial position. The statement of revenues, expenses, and changes in fund equity presents increases (i.e., revenue) and decreases (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.

B. Cash and Cash Equivalents

Cash and cash equivalents consist of cash on hand, demand deposit accounts, and time deposit accounts in financial institutions with initial maturities of less than three months. The District maintains deposits with financial institutions insured by the Federal Deposit Insurance Corporation (FDIC). As of December 31, 2003, the designated depository bank had all deposits insured by the FDIC and/or had pledged securities to fully collateralize the District's deposits that exceeded the amount legally insured by the FDIC. Refer also to Note 3 for more information on deposits and investments.

C. Inventory

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

D. Prepaid Expenses

Payments made to vendors for services that will benefit periods beyond the applicable fiscal year ended December 31, 2003 are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expense is reported in the year in which the services are consumed.

E. Fixed Assets and Depreciation

Fixed assets acquired or constructed for the general use of the District in providing services are recorded at cost. Donated assets are recorded at their estimated fair market value at the time received. Capital assets are defined as assets with an initial, individual cost of at least \$1,000 and an estimated useful life in excess of

Le-Ax Water District
Notes to Financial Statements
For the Year Ended December 31, 2003
Continued

Note 2. Summary of Significant Accounting Policies (continued)

E. Fixed Assets and Depreciation (continued)

three years. Depreciation of fixed assets of the District is calculated utilizing the straight-line method. All assets reported in the financial statements are at cost less accumulated depreciation. The cost of normal maintenance and repair that does not add to the value of the asset or materially extend the asset's estimated useful life is not capitalized. Refer to Note 4 for more information about fixed assets.

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

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

F. Compensated Absences

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

F. Compensated Absences (continued)

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.

G. Estimates

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

Le-Ax Water District
Notes to Financial Statements
For the Year Ended December 31, 2003
Continued

Note 3. Deposits and Investments

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

Active deposits are public deposits necessary to meet current demands on the treasury. Such monies must be maintained either as cash in the District treasury, in commercial accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts. The District had \$2,015,367 in active deposits at year-end.

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 \$742,198 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 will be needed before the end of the current period of designation of depositories. Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit, or by savings 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;

Le-Ax Water District
Notes to Financial Statements
For the Year Ended December 31, 2003
Continued

Note 3. Deposits and Investments (continued)

State statutes permit monies to be deposited or invested in the following securities:

6. The State Treasurer's investment pool (STAR Ohio);
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.

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."

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, 2003, 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 = \$2,015,367 Book balances = \$2,757,565

Investments The District's investments are required to be 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, 2003, all of the District's \$2,691,525 in investments were Category 1 items; interest bearing checking accounts, savings accounts, and/or certificates of deposit.

Cash Flow Statement The amount shown as the District's cash and cash equivalents, beginning of year for 2003 is \$87,615. The amount shown as cash and cash equivalents, end of year in the 2002 financial statements was \$2,597,089. In 2003, the agency chose to report Cash and Investments in separate line items. As reported in the current format, cash was \$87,615 and investments were \$2,509,474 as of the end of 2002.

Le-Ax Water District
Notes to Financial Statements
For the Year Ended December 31, 2003
Continued

Note 4. Fixed Assets

A summary of fixed assets at December 31, 2003 is as follows:

Land (non-depreciable item)	\$ 64,829
Easements (non-depreciable item)	10,509
Water Plant and Building	4,601,278
Water Lines, Tanks, and Wells	12,684,610
Roads, Parking Lots, and Fencing	47,851
Water Meters and Installation	885,754
Miscellaneous Equipment	706,170
Office Equipment	229,473
Waterline Relocation	280,285
Hocking County Expansion	160,388
Vinton County Expansion	<u>270,265</u>
Totals	19,941,412
Less: Accumulated Depreciation	<u>6,017,120</u>
Total Net Fixed Assets	<u>\$ 13,924,292</u>

Note 5. Debt

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

Ohio Water Development Authority (OWDA) Mortgage Revenue Bonds as of December 31, 2003 were \$888,695. These mortgage revenue bonds were for various fixed assets constructed to provide service from the well to the distribution lines, including the operations plant and various storage facilities. Property and revenue of the District have been pledged to repay these amounts.

United States Department of Agriculture – Rural Development (USDA/RD), formerly Farmers Home Administration, Le-Ax Water System Revenue Bonds as of December 31, 2003 were \$6,474,989. These water system revenue bonds were for various fixed assets constructed to provide service from the well to the distribution lines including the operation plant and various storage facilities. Revenue of the District has been pledged to repay these amounts.

The annual requirements to amortize the principal of all bonded debt outstanding as of December 31, 2003, are as follows.

<u>Year Ended</u>	<u>OWDA</u>	<u>USDA/RD</u>
2004	\$ 55,635	\$ 84,058
2005	\$ 56,747	\$ 87,840
2006	\$ 57,882	\$ 91,793
2007	\$ 59,040	\$ 95,924
2008	\$ 60,221	\$ 100,240
To maturity	\$ 599,170	\$ 6,015,134

Le-Ax Water District
Notes to Financial Statements
For the Year Ended December 31, 2003
Continued

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.

The Ohio Revised Code provides statutory authority for employee and employer contributions. The 2003 employee contribution rate was 8.5% for all employees except law enforcement and public safety. The 2003 employer contribution rate was 13.55% of covered payroll for all local government units. The District's contributions to PERS for the year ended December 31, 2003 were \$81,778. This contribution was equal to the required contribution for the year. Employee contributions to PERS totaled \$51,299 in 2003.

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.

Le-Ax Water District
Notes to Financial Statements
For the Year Ended December 31, 2003
Continued

Note 7. Post-Employment Benefits (continued)

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%.

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, 2003, 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

LE-AX WATER DISTRICT
December 31, 2003

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

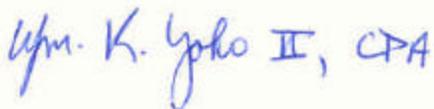
To the Board of Trustees:

I have audited the financial statements of Le-Ax Water District, as of and for the year ended December 31, 2003, and have issued my report thereon dated July 26, 2005. 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.

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.



William Kenneth Yoho II, CPA
July 26, 2005

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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**