



**JIM PETRO**  
**AUDITOR OF STATE**  

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**STATE OF OHIO**



ALLEN WATER DISTRICT  
ALLEN COUNTY

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**REPORT OF INDEPENDENT ACCOUNTANTS**

Allen Water District  
Allen County  
P.O. Box 724  
Lima, Ohio 45802-0724

To the Board of Trustees:

We have audited the accompanying general-purpose financial statements of the Allen Water District, Allen County (the District), as of and for the years ended December 31, 2001 and 2000. These general-purpose financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these general-purpose 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 opinion.

In our opinion, the general-purpose financial statements referred to above present fairly, in all material respects, the financial position of the District as of December 31, 2001 and 2000, and the results of its operations and its cash flows 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 15, 2002, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

A handwritten signature in black ink, appearing to read "Jim Petro".

**Jim Petro**  
Auditor of State

July 15, 2002

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**ALLEN WATER DISTRICT  
ALLEN COUNTY**

**BALANCE SHEET  
AS OF DECEMBER 31, 2001 AND 2000**

	<b>2001</b>	<b>2000</b>
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash in checking and petty cash	\$234,206	\$193,609
Accounts receivable	63,112	64,655
Prepaid insurance	933	959
<b>TOTAL CURRENT ASSETS</b>	<b>298,251</b>	<b>259,223</b>
<b>RESTRICTED ASSETS</b>		
Investments in restricted funds	1,031,384	1,257,208
Assessments receivable	6,054,142	6,196,614
<b>TOTAL RESTRICTED ASSETS</b>	<b>7,085,526</b>	<b>7,453,822</b>
<b>PROPERTY, PLANT AND EQUIPMENT</b>		
Land easements	7,036	7,036
Water lines	10,632,198	10,632,198
Developer donated lines	1,303,825	1,242,625
Office furniture and equipment	22,859	22,859
	11,965,918	11,904,718
Less: Accumulated depreciation	(1,407,263)	(1,161,806)
<b>NET PROPERTY AND EQUIPMENT</b>	<b>10,558,655</b>	<b>10,742,912</b>
<b>OTHER ASSETS</b>		
Planning costs-general, net of \$78,178 accumulated amortization (\$69,381 in 2000)	303,128	311,924
<b>TOTAL ASSETS</b>	<b>18,245,560</b>	<b>18,767,881</b>
<b>LIABILITIES AND EQUITY</b>		
<b>CURRENT LIABILITIES</b>		
Ohio Water Development Authority Payable- Current Portion	217,947	435,781
Accounts payable	28,701	26,912
Accrued interest	268,520	237,734
Vacation accrual	304	-
Payroll taxes accrued and withheld	1,567	1,326
<b>TOTAL CURRENT LIABILITIES</b>	<b>517,039</b>	<b>701,753</b>
<b>LONG-TERM LIABILITIES</b>		
Deferred revenues	419,997	411,602
Ohio Water Development Authority Loans Payable - net of current portion	7,760,780	7,978,152
Ohio Water and Sewer Rotary Commission Loans Payable	236,046	236,046
<b>TOTAL LONG-TERM LIABILITIES</b>	<b>8,416,823</b>	<b>8,625,800</b>
<b>FUND EQUITY</b>		
Contributed capital - grants	185,327	185,327
Contributed capital - assessments	9,016,332	9,016,332
Contributed capital - Townships	106,000	106,000
Contributed capital - Allen County	15,000	15,000
Contributed capital - City of Lima	194,168	194,168
Contributed capital - donated lines	1,242,625	1,242,625
Accumulated deficit	(1,447,754)	(1,319,124)
<b>TOTAL FUND EQUITY</b>	<b>9,311,698</b>	<b>9,440,328</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>\$18,245,560</b>	<b>\$18,767,881</b>

*See Accompanying Notes to the General Purpose Financial Statements.*

**ALLEN WATER DISTRICT  
ALLEN COUNTY**

**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN ACCUMULATED DEFICIT  
FOR THE YEARS ENDED DECEMBER 31, 2001 AND 2000**

	<b>2001</b>	<b>2000</b>
<b>OPERATING REVENUES</b>		
District fees	\$248,909	\$233,004
Contract fees revenue	136,620	126,310
<b>TOTAL OPERATING REVENUES</b>	<b>385,529</b>	<b>359,314</b>
<b>OPERATING EXPENSES</b>		
Office wages	20,009	19,451
Contract fees expense	136,620	126,310
Trustee fees	8,850	9,050
Consulting fees	1,000	900
Earned vacation	304	-
Payroll taxes	807	504
PERs expense	3,910	3,085
Engineering fees	23,327	24,630
Legal fees	29,964	28,239
Accounting	11,910	17,563
Audit fees	-	12,234
Insurance	2,327	2,301
Telephone/data communications	2,138	1,560
Office supplies	1,136	1,237
Equipment maintenance	1,363	1,679
Rent	7,200	7,200
Office maintenance	770	820
Postage	630	764
Easement rent	350	150
Utilities	1,267	1,315
Depreciation	245,458	248,772
Amortization	8,797	8,797
Miscellaneous project expense	22,141	-
Terminated project expense	-	21,746
Transportation	1,719	1,820
Miscellaneous	271	392
<b>TOTAL OPERATING EXPENSES</b>	<b>532,268</b>	<b>540,519</b>
Operating loss	<b>(146,739)</b>	<b>(181,205)</b>
<b>OTHER INCOME (EXPENSE)</b>		
Tap fees	\$67,625	\$98,481
Tap fee recoupment	(4,323)	(10,640)
Interest income	427,519	392,334
Plan and review/inspection revenue	7,006	9,869
Plan and review/inspection expenses	(5,557)	(18,620)
CIP revenues	4,602	7,162
Meter fees	2,695	4,275
Interest expense	(543,395)	(480,736)
Miscellaneous revenue	737	37
Net other income (expense)	<b>(43,091)</b>	<b>2,162</b>
<b>NET LOSS BEFORE CONTRIBUTIONS</b>	<b>(189,830)</b>	<b>(179,043)</b>
Capital contributions - donated lines	61,200	-
<b>NET LOSS FOR THE YEAR</b>	<b>(128,630)</b>	<b>(179,043)</b>
Accumulated deficit, beginning of the year	(1,319,124)	(1,050,385)
Prior period adjustment - change in accounting for agricultural deferred properties	-	(89,696)
<b>Accumulated deficit, end of year</b>	<b>(\$1,447,754)</b>	<b>(\$1,319,124)</b>

See Accompanying Notes to the General Purpose Financial Statements.



**ALLEN WATER DISTRICT  
ALLEN COUNTY**

**STATEMENT OF CASH FLOWS  
FOR THE YEARS ENDED DECEMBER 31, 2001 and 2000**

	<b>2001</b>	<b>2000</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash received from customers	\$228,198	\$219,351
Cash received from contract fee revenues	137,298	126,310
Cash payments to suppliers for goods and services	(220,742)	(265,071)
Cash payments for employee services and benefits	(33,336)	(32,647)
Net cash provided by operating activities	111,418	47,943
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
Other income	737	37
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Proceeds from OWDA loans	-	1,294,952
Tap fees	67,625	98,481
Tap fee recoupment	(4,323)	(10,640)
Plan and review/inspection revenue	7,006	9,869
Plan and review/inspection expenses	(5,557)	(18,620)
CIP revenues	4,602	7,162
Meter fees	2,695	4,275
OWDA principal payments	(435,781)	(241,035)
OWDA interest payments	(512,233)	(486,459)
Special assessments collections	150,869	385,892
Special assessment interest income	381,504	328,608
Capital outlay	-	(1,169,276)
Net cash provided (used) by capital and related financing activities	(343,593)	203,209
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Interest on cash and investments	46,211	63,725
Net increase (decrease) in cash and cash equivalents	(185,227)	314,914
Cash and cash equivalents at beginning of year	1,450,817	1,135,903
Cash and cash equivalents at end of year	\$ 1,265,590	\$ 1,450,817
<b>RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:</b>		
Operating loss	\$ (146,739)	\$ (181,205)
<b>Adjustments to Reconcile Operating Loss to Net Cash Provided by Operating Activities:</b>		
Depreciation and amortization	254,255	257,569
Terminated project expense		21,746
<b>Changes in Assets and Liabilities:</b>		
(Increase) in accounts receivable	1,543	(13,653)
Increase in accounts payable	1,789	(35,958)
Decrease in prepaid insurance	26	
Increase in accrued wages and benefits	544	(556)
Total adjustments	258,157	229,148
Net cash provided by operating activities	\$111,418	\$47,943

See Accompanying Notes to the General Purpose Financial Statements.

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**ALLEN WATER DISTRICT  
ALLEN COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2001 AND 2000**

**1. NATURE OF ORGANIZATION**

The Allen Water District, hereafter referred to as the District, 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 five (5) member appointed Board of Trustees manage the Allen Water District.

**2. SUMMARY OF SIGNICANT 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.

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

The accounts of the District 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 District 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, fund balance, 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 the District 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 the District 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.

**B. Basis of Accounting**

The accounting records are maintained on the accrual basis of accounting for financial reporting purposes. All other revenues are recognized when earned and expenses are recognized when they are incurred.

The proprietary fund is accounted for on a flow of economic resources and all assets and liabilities associated with the operation are included on the balance sheet. Fund equity is segregated into retained earnings and contributed capital components.

**ALLEN WATER DISTRICT  
ALLEN COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2001 AND 2000  
(Continued)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES- (Continued)**

**C. Budgetary Process**

The Ohio Revised Code requires that a budget be prepared annually. The District has adopted annual budgets, and has adopted and passed annual appropriation resolutions.

**1. 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.

**2. Estimated Resources**

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

**3. Encumbrances**

The Ohio Revised Code requires the District to reserve (encumber) appropriations when commitments are made. As part of formal budgetary control, purchase orders, contracts, and other commitments for the expenditure of monies are encumbered and recorded as the equivalent of expenditures on the GAAP budgetary basis in order to reserve that portion of the applicable appropriation and to determine and maintain legal compliance. On the GAAP basis, encumbrances outstanding at year end are reported in the notes to the financial statements for proprietary funds. The District did not follow the encumbrance method of accounting.

**4. Lapsing of Appropriations**

At the close of each year, the balance of each appropriation reverts to the respective fund from which it was appropriated and becomes subject to future appropriations.

**D. 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, the District 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.

**E. Accounts Receivable**

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

**F. Prepaid Expenses**

Payments made to vendors for services that will benefit subsequent periods 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.

**ALLEN WATER DISTRICT  
ALLEN COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2001 AND 2000  
(Continued)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES- (Continued)**

**G. Restricted Assets**

Certain proceeds from property assessments are classified as restricted assets on the balance sheet because their use is restricted.

**H. Property, Plant and Equipment**

Property, plant and equipment 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. In addition, interest costs incurred during the construction of the water system infrastructure are capitalized and included in property, plant and equipment. 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.

**I. 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 property, plant, and equipment, and depreciated (as Note 2.H. defines). If the proposed project does not enter construction, respective planning costs will be amortized (as Note 2.J. defines).

**J. Amortization**

General planning costs are being amortized over fifty years, which is computed using the straight-line method for financial statement reporting purposes. Amortization expense charged to operations for 2001 and 2000 was \$8,797 each year.

**K. Interest Expense**

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

**L. 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.

**M. Income Tax**

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

**ALLEN WATER DISTRICT  
ALLEN COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2001 AND 2000  
(Continued)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES- (Continued)**

**N. Deferred Revenue**

The District reports deferred revenue on its balance sheet. Deferred revenues arise from deferred agricultural property assessments. These amounts will be collected when the properties no longer qualify for agricultural property status, as defined in the Ohio Revised Code Chapter 929.

**3. CHANGE IN ACCOUNTING PRINCIPLES**

For the year 2001, the District has implemented Governmental Accounting Statement No. 33, *Accounting and Financial Reporting for Non exchange Transactions*. This statement established accounting and reporting guidelines for non exchange transactions in which a government receives or gives value without directly receiving (or giving) equal value in exchange. Implementation of this statement did not affect the financial statements as of December 31, 2000. At December 31, 2001, the net effect was that retained earnings increased by \$61,200 and contributed capital decreased by \$61,200 as donated lines were recognized in the Statement of Revenues, Expenses and Changes in Accumulated Deficit.

**4. ACCUMULATED FUND DEFICIT**

The accumulated deficit balance as of December 31, 2001 and 2000 was \$1,447,754 and \$1,319,124, respectively. This deficit is created because depreciation and amortization are non-cash items but are included in net loss for each year and retained as a deficit. The District does not intend to accumulate additional funds to cover potential future improvement costs (represented by depreciation and amortization).

**5. 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.

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.

**ALLEN WATER DISTRICT  
ALLEN COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2001 AND 2000  
(Continued)**

**5. EQUITY IN POOLED CASH AND INVESTMENTS-LEGAL REQUIREMENTS FOR DEPOSITS  
(Continued)**

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

- a. 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;
- b. 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;
- c. 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;
- d. Bonds and other obligations of the State of Ohio;
- e. 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;
- f. The State Treasurer's investment pool (STAR Ohio);
- g. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred eighty days in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time.

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 District, and must be purchased with the expectation that it will be held to maturity.

Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the Treasurer, or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

Protection of the District'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.

**ALLEN WATER DISTRICT  
ALLEN COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2001 AND 2000  
(Continued)**

**5. EQUITY IN POOLED CASH AND INVESTMENTS-LEGAL REQUIREMENTS FOR DEPOSITS  
(Continued)**

The carrying amount of cash and investments at December 31, are as follows:

	<b>2001</b>	<b>2000</b>
Carrying Amount of Deposits	\$234,206	\$193,609
Star Ohio Investment Amount	1,031,384	1,257,208
Total Cash and Investments	<u>\$1,265,590</u>	<u>\$1,450,817</u>

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, Investments and Reverse Repurchase Agreements."

**Deposits** - At fiscal year end, \$100,000 of the bank balance was covered by federal depository insurance. The remaining balance was collateralized by third party trustees in single institution collateral pools, securing all public funds on deposit with specific depository institutions.

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.

**Investments** – The District's investments are categorized to give an indication of the level of risk assumed by the District at fiscal year end. Category 1 includes investments that are insured or registered or for which the securities are held by the District or its agent in the District's name. Category 2 includes uninsured and unregistered investments, which are held by the counter party'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 counter party, or by its trust department or agent but not in the District's name.

The District has invested in the State Treasury Asset Reserve of Ohio (STAR Ohio). 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.

**6. BUDGETARY ACTIVITY**

Budgetary activity for the years ending December 31, 2001 and 2000 follows:

<b>Budgeted vs. Actual Receipts</b>		
Fund Type	2001	2000
Budgeted Receipts	\$1,710,319	\$3,087,204
Actual Receipts	895,713	871,472
Variance	<u>\$814,606</u>	<u>\$2,215,732</u>



**ALLEN WATER DISTRICT  
ALLEN COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2001 AND 2000  
(Continued)**

**6. BUDGETARY ACTIVITY (Continued)**

<b>Budgeted vs. Actual Budgetary Basis Expenditures</b>		
Fund Type	2001	2000
Appropriation Authority	\$1,103,908	\$2,950,610
Budgetary Expenditures	1,085,543	1,050,515
Variance	\$18,365	\$1,900,095

The District did not properly obtain fiscal officer certification prior to incurring an obligation.

**7. ACCOUNTS RECEIVABLE**

The accounts receivable balance of \$63,112 at December 31, 2001 and \$64,655 at December 31, 2000 is current (due 0-30 days). Assessment receivables of \$6,054,142, and \$6,196,614 at December 31, 2001 and 2000, respectively, 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.

**8. DISTRICT AND CONTRACT FEES**

District 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 the District and the City of Lima. The City of Lima is responsible for the billing and collection of all fees on behalf of the District.

**9. INTEREST INCOME**

Interest income is comprised of the following:

	<b>2001</b>	<b>2000</b>
Interest income from the checking account	\$ 4,407	\$ 3,992
Interest income from savings account	41,804	59,733
Interest income from assessments, accrued and collected	381,308	328,609
Total	\$ 427,519	\$ 392,334

**10. RISK MANAGEMENT**

The District belongs to the Ohio Government Risk Management Plan (the "Plan"), an unincorporated non-profit association with over 600 governmental entity members providing a formalized, jointly administered self-insurance risk management program and other administrative services.

**ALLEN WATER DISTRICT  
ALLEN COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2001 AND 2000  
(Continued)**

**10. RISK MANAGEMENT (Continued)**

Pursuant to Section 2744.081 of the Ohio Revised Code, the Plan is deemed a separate legal entity. The Plan provides property, liability, errors and omissions, law enforcement, automobile, excess liability, crime, surety and bond, inland marine and other coverages, modified for each member's needs. The Plan pays judgments, settlements and other expenses resulting from covered claims that exceed the member's deductible. The Plan uses conventional insurance coverages and reinsures these coverages 100%, rather than using a risk pool of member funds to pay individual and collective losses. Therefore, the individual members are only responsible for their self-retention (deductible) amounts which vary from member to member.

**11. CONTRIBUTED CAPITAL**

Following is a description of the components of contributed capital:

Ohio Public Works Commission		1995	\$	20,291
-credit enhancement grant	State Route 309			
Ohio Public Works Commission		1996-1997		165,036
-capital grant funding	East Breese			
American Township	Springbrook			24,933
Bath Township	Springbrook			41,067
Perry Township	East Breese	1996		30,000
City of Lima	Buckeye Road	1993		50,000
City of Lima	State Route 309	1995		55,000
City of Lima	Springbrook			58,000
City of Lima	East Breese	1997		25,000
City of Lima	Metzger	1998		4,350
Perry Township	Hanthorn Ext.	1998		10,000
Allen County	Hanthorn Ext.	1998		15,000
City of Lima	Diller-Eastown-Franks	2000		1,818
Assessments (prepaid and certified)	All Projects	1992-2000		9,016,332
Developer	Various	1993-2000		1,242,625

Contributed capital from donated developer line represents the fair value of construction for the new developments placed in service during 1991 through 2000. The developers' contracts state that the lines must be donated to AWD once a resolution has been passed to accept the lines as operational, and for use and hook-up. The donated lines are recorded as an asset once the bill of sale is signed and finalized. As more fully described in Note 3, the District implemented GASB Statement No. 33 during fiscal year 2001. The District recorded \$61,200 in donated developer lines as capital contributions – donated lines in the Statement of Revenues, Expenses and Changes in Accumulated Deficit in accordance with GASB 33.

**ALLEN WATER DISTRICT  
ALLEN COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2001 AND 2000  
(Continued)**

**12. PROPERTY, PLANT AND EQUIPMENT**

The following is a schedule of property, plant, and equipment at December 31:

	<b>12/31/2000</b>	<b>12/31/2001</b>
Land Easements	\$7,036	\$7,036
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	1,759,881	1,759,881
Buckeye Road	317,070	317,070
Shagbark and Snowberry	153,781	153,781
Springbrook	883,148	883,148
East Breese	542,553	542,553
Greely Chapel South	170,267	170,267
Greely Chapel North	23,410	23,410
Dixie Blue I & II	782,167	782,167
East Bluelick Extension	99,872	99,872
Hanthorn Extension	58,946	58,946
Lee Ann	41,969	41,969
Woodbriar	635,386	635,386
Metzger	98,364	98,364
Linfield	79,094	79,094
Fetter	216,664	216,664
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	80,108	80,108
Donated Developer Lines	1,242,625	1,303,825
Office Furniture and Equipment	22,859	22,859
Total	<u>11,904,718</u>	<u>11,965,918</u>
Less Accumulated Depreciation	<u>(\$1,161,806)</u>	<u>(1,407,263)</u>
Total Property and Equipment	<u>\$10,742,912</u>	<u>\$10,558,655</u>

**ALLEN WATER DISTRICT  
ALLEN COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2001 AND 2000  
(Continued)**

**13. CURRENT AND LONG-TERM DEBT**

The current and long-term debts listed are construction loans with Ohio Water Development Authority (O.W.D.A.) and the Ohio Water and Sewer Rotary Commission are as follows:

	Rate	Payment	Term	Due in 2001	Due in 2002	Due after 2002
Elm/Copus Project	7.45%	1/1/1993	25 yrs	\$ 447	\$480	\$13,424
Elm/Copus Project	7.56%	1/1/1993	25 yrs	9,192	9,887	279,070
Shawnee Project	7.54%	1/1/1994	25 yrs	40,865	43,968	1,379,431
McDonel Project	7.24%	1/1/1994	25 yrs	24,337	26,099	796,314
Hawthorne Project	7.21%	1/1/1994	25 yrs	6,031	6,466	196,727
Allentown Project	6.85%	1/1/1995	25 yrs	40,770	43,563	1,416,385
Allentown Project	6.24%	7/1/1995	25 yrs	5,008	5,321	170,582
State Route 309 Project	6.51%	1/1/1995	25 yrs	4,192	4,465	140,390
Buckeye Project	5.90%	1/1/1995	25 yrs	7,841	8,303	245,892
Shagbark/Snowberry Project	6.72%	1/1/1996	25 yrs	3,481	3,715	131,211
Springbrook Project	6.72%	1/1/1996	25 yrs	15,124	16,140	625,671
East Breese Project	5.94%	7/1/1998	25 yrs	3,335	3,533	142,569
Greely Chapel Project	6.32%	7/1/1999	25 yrs	2,084	2,215	101,777
Woodbriar/Metzger Project	5.66%	7/1/1999	25 yrs	12,405	13,107	553,966
Stewart/Fetter/Linfield Project	5.54%	1/1/2000	25 yrs	8,823	9,312	403,506
Dixie Highway North/King Project	5.77%	7/1/2001	25 yrs	16,996	2,565	130,205
Eastown Project	6.13%	7/1/2001	25 yrs	12,060	3,185	170,295
Sweger/Fraunfelter Project	6.13%	7/1/2001	25 yrs	64,290	3,076	164,456
Diller/ Easton/Franks/Colony	6.41%	7/1/2001	25 yrs	154,716	11,196	623,470
Dixie Highway Phase #3 Project	6.39%	7/1/2001	25 yrs	3,751	1,351	75,006
*Shawnee Agriculture Deferred	0.00%	NA	20 yrs	-	-	23,008
*Allentown Agriculture Deferred	0.00%	NA	20 yrs	-	-	118,787
*Dutch Hollow Agriculture Deferred	0.00%	NA	20 yrs	-	-	28,217
*Springbrook Agriculture Deferred	0.00%	NA	20 yrs	-	-	29,174
*East Breese Agriculture Deferred	0.00%	NA	20 yrs	-	-	36,860
				<b>\$435,781</b>	<b>\$217,947</b>	<b>\$7,996,393</b>

For the year 2001, the last five projects above include the required principal payment plus a lump-sum payment from user assessments that were paid up-front that reduced the debt.

**A. Ohio Water and Sewer Rotary Commission**

The District also obtained five interest free loans from the Ohio Water and Sewer Rotary Commission (as indicated with an asterisk (\*) above) 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.

**ALLEN WATER DISTRICT  
ALLEN COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2001 AND 2000  
(Continued)**

**13. CURRENT AND LONG-TERM DEBT (Continued)**

Future principal and interest payments on all loans are as follows, including interest of \$7,019,221:

	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007 and After</b>
Elm/Copus Project	\$ 1,516	\$ 1,516	\$ 1,516	\$ 1,516	\$ 1,516	\$ 18,192
Elm/Copus Project	31,733	31,733	31,733	31,733	31,733	380,792
Shawnee Project	151,292	151,292	151,292	151,292	151,292	1,966,794
McDonel Project	85,641	85,641	85,641	85,641	85,641	1,113,339
Hawthorne Project	21,116	21,116	21,116	21,116	21,116	274,504
Allentown Project	143,569	143,569	143,569	143,569	143,569	2,009,966
Allentown Project	16,297	16,297	16,297	16,297	16,297	268,907
State Route 309 Project	13,895	13,895	13,895	13,895	13,895	194,535
Buckeye Project	23,301	23,301	23,301	23,301	23,301	326,208
Shagbark/Snowberry Project	12,782	12,782	12,782	12,782	12,782	191,724
Springbrook Project	59,270	59,270	59,270	59,270	59,270	889,051
East Breese Project	12,212	12,212	12,212	12,212	12,212	213,703
Greely Chapel Project	8,788	8,788	8,788	8,788	8,788	153,784
Woodbriar/Metzger Project	45,204	45,204	45,204	45,204	45,204	791,064
Stewart/Fetter/Linfield Project	32,182	32,182	32,182	32,182	32,182	579,270
Dixie Highway North/King	10,190	10,190	10,190	10,190	10,190	198,698
Eastown Project	13,771	13,771	13,771	13,771	13,771	268,543
Sweger/Fraunfelter Project	13,299	13,299	13,299	13,299	13,299	259,336
Diller/ Easton/Franks/Colony	51,702	51,702	51,702	51,702	51,702	1,008,184
Dixie Highway Phase #3	6,209	6,209	6,209	6,209	6,209	121,072
Shawnee Agriculture Deferred	-	-	-	-	-	23,008
Allentown Agriculture Deferred	-	-	-	-	-	118,787
Dutch Hollow Agriculture	-	-	-	-	-	28,217
Springbrook Agriculture	-	-	-	-	-	29,174
East Breese Agriculture	-	-	-	-	-	36,860
	<b>\$ 753,969</b>	<b>\$ 753,969</b>	<b>\$ 753,969</b>	<b>\$ 753,969</b>	<b>\$ 753,969</b>	<b>\$ 11,463,712</b>

**Inter-project Loans** -The District has 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 the District. The District has established a repayment plan for these inter-project loans.

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 the District's intent that the respective debt will be repaid from these revenues to the projects from which the money was borrowed. The interest to be repaid is tied to the market and varies on a quarterly basis.

As of December 31, the loans issued to other projects are as follows:

<b>Payable To</b>	<b>Interest Rate</b>	<b>2001</b>	<b>2000</b>
McDonel Project	variable	\$150,000	\$165,000
Allentown Project	variable	355,000	375,000
Springbook Project	variable	170,000	180,000
Buckeye Project	variable	90,000	100,000

**ALLEN WATER DISTRICT  
ALLEN COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2001 AND 2000  
(Continued)**

**14. DEFINED BENEFIT RETIREMENT PLAN**

The Public Employees Retirement System of Ohio (PERS) is a cost-sharing multiple-employer defined benefit pension plan. PERS provides retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members and beneficiaries. The authority to establish and amend benefits is provided by state statute per Chapter 145 of the Ohio Revised Code.

The Public Employees Retirement System issues a stand-alone financial report. Interested parties may obtain a copy by making a written request to 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 466-2085 or 1-800-222-PERS (7377).

Plan members are required to contribute 8.5 percent of their annual covered salary to fund pension obligations. The District contributed an amount equal to 13.55 percent of participants' gross salaries for 2001, and from January 1, 2000 through June 30, 2000. PERS temporarily reduced the employer contribution rate to 8.13 percent effective July 1, 2000 through December 31, 2000. Contributions are authorized by State statute, and the contribution rates are determined actuarially. The District's contributions to PERS for the years ended December 31, 2001, 2000, and 1999, were \$3,910, \$3,085, and \$3,698, respectively. The full amount has been contributed for all years.

**15. POSTEMPLOYMENT BENEFITS**

The Public Employees Retirement System of Ohio (PERS) provides postretirement health care coverage to age and service retirees with 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 Postemployment Benefit (OPEB) as described in GASB Statement No. 12. A portion of each employer's contribution to PERS is set-aside for the funding of post retirement health care. The Ohio Revised Code provides statutory authority for employer contributions. For local government employer units the rate was 13.55% of covered payroll; 4.30% was the portion used to fund health care. The Ohio Revised Code provides the statutory authority requiring public employers to fund postretirement health care through their contributions to PERS.

**A. Summary of Assumptions:**

**Actuarial Review** - The assumptions and calculations below were based on the System's latest Actuarial Review performed as of December 31, 2000.

**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 2000 was 7.75%

**Active Employee Total Payroll** - An annual increase of 4.75% 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 4.75 base increase, were assumed to range from 0.54% to 5.1%.

**ALLEN WATER DISTRICT  
ALLEN COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2001 AND 2000  
(Continued)**

**15. POSTEMPLOYMENT BENEFITS (Continued)**

**Health Care** – Health care cost were assumed to increase 4.75% annually.

The rates stated above are the actuarially determined contribution requirements for PERS. As part of this disclosure, it will be necessary for the employer to disclose the employer contributions OPEBs are advance-funded on an actuarially determined basis. The following disclosures are required:

1. The number of active contributing participants was 411,076
2. The employer contributions that were used to fund postemployment benefits were \$1,241.
3. \$11,735.9 million represents the actuarial value of the Retirement System's net assets available for OPEB at December 31, 2000.
4. The actuarially accrued liability and the unfunded actuarial accrued liability, based on the actuarial cost method used, were \$14,365 million and \$2,629 million, respectively.

**16. PRIOR PERIOD ADJUSTMENT**

The accompanying financial statements for 2000 have been restated to correct a change in accounting related to the accrual of interest income for agricultural deferred properties. Interest income on agricultural deferred properties should not be recognized until the property is converted to a non-agricultural status. The effect of the restatement was to increase accumulated fund deficit \$89,696 at December 31, 2000.

**17. CONTINGENT LIABILITIES**

The District's general legal counsel is Albers and Albers, Attorneys at Law, Columbus, Ohio.

- a. **Pending or Threatened Litigation** – During the period ended December 31, 2000 and December 31, 2001, the District had no pending contingent liability of which management is aware.
- b. **Contractually Assumed Obligations** – To Counsel's knowledge, the District has assumed contractual obligations only with regard to the financing of its planning and construction activities for the construction of a water system. No claim against these contractual obligations has been made or is anticipated that would result in an unfavorable outcome to the District.
- c. **Claims and Assessments** – To Counsel's knowledge, there are no unasserted claims and/or assessments which, if asserted, would have a reasonable possibility of an unfavorable outcome with a material effect upon the financial condition of one or more funds of the District.

**ALLEN WATER DISTRICT  
ALLEN COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2001 AND 2000  
(Continued)**

**18. NEW ACCOUNTING PRONOUNCEMENTS**

The Governmental Accounting Standards Board has issued GASB Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis – For State and Local Governments*. The phase-in period of this accounting principle will require the District to implement the change for the year ended December 31, 2004. The District is preparing for this change in accounting principle, but has elected not to early implement it for fiscal year 2001.





STATE OF OHIO  
OFFICE OF THE AUDITOR

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**REPORT OF INDEPENDENT ACCOUNTANTS ON COMPLIANCE AND  
ON INTERNAL CONTROL REQUIRED BY GOVERNMENT AUDITING STANDARDS**

Allen Water District  
Allen County  
P.O. Box 724  
Lima, Ohio 45802-0724

To the Board of Trustees:

We have audited the accompanying financial statements of the Allen Water District, Allen County, (the District) as of and for the year ended December 31, 2001 and 2000, and have issued our report thereon dated July 15, 2002. 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.

**Compliance**

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance that is required to be reported under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2001-40202-001. We also noted an immaterial instance of noncompliance that we have reported to management of the District in a separate letter dated July 15, 2002.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the 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 assurance 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 condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of the District in a separate letter dated July 15, 2002.

Allen Water District  
Allen County  
Report of Independent Accountants on Compliance and on  
Internal Control Required by *Government Auditing Standards*  
Page 2

This report is intended for the information and use of the audit committee, management, and the Board of Trustees, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, appearing to read "Jim Petro". The signature is stylized with a large, looping initial "J" and a long horizontal stroke extending to the right.

**Jim Petro**  
Auditor of State

July 15, 2002

**ALLEN WATER DISTRICT  
ALLEN COUNTY**

**SCHEDULE OF FINDINGS  
DECEMBER 31, 2001 AND 2000**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b>
--

**FINDING NUMBER 2001-40202-001**

**Prior Certification**

**Ohio Revised Code Section 5705.41 (D)** states that no orders or contracts involving the expenditure of money are to be made unless there is a certificate of the fiscal officer that the amount required for the order or contract has been lawfully appropriated and is in the treasury or in the process of collection to the credit of an appropriate fund free from any previous encumbrances.

An exception to this requirement provides that, if the fiscal officer can certify that both at the time that the contract or order was made and at the time that the certification is being completed, sufficient funds were available or were in the process of collection, to the credit of a proper fund, properly appropriated and free from any previous encumbrance, the taxing authority can authorize the drawing of the warrant ("then and now"). The taxing authority has 30 days from the receipt of such certificate to approve payment by resolution or ordinance. If approval is not made within 30 days, there is no legal liability on the part of the subdivision or taxing district.

Amounts of less than \$1,000 may be paid by the fiscal officer without such affirmation of the taxing authority upon completion of the "then and now" certificate, provided that the expenditure is otherwise lawful. This does not eliminate any otherwise applicable requirement for approval of expenditures by the taxing authority.

Proper certification was not obtained for the District's expenditure transactions, nor was there evidence of certification that funds were available at the time of making the obligation and at the time of payment ("then and now").

The lack of proper certification could result in the obligation of funds in excess of fund balances resulting in a deficit spending situation. Certification that funds are available should be obtained prior to purchasing goods and services to prevent possible overspending of resources and/or the obligation of amounts in excess of specific line item appropriations. Procedures should be established for obtaining certification prior to incurring an obligation, or for subsequent certification and approval as provided by the exception noted above.

The District attempted to comply with the above requirement by "blanket" certifying certain classification of operating expenses.





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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  
AUGUST 15, 2002**