Allen Water District

Audited Financial Statements

For the Years Ended
December 31, 2013 and 2012

Dave Yost • Auditor of State

Board of Trustees
Allen Water District
3230 North Cole Street
Lima, Ohio 45807

We have reviewed the *Independent Auditor's Report* of the Allen Water District, Allen County, prepared by Rea & Associates, Inc., for the audit period January 1, 2012 through December 31, 2013. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Allen Water District is responsible for compliance with these laws and regulations.

Dave Yost
Auditor of State

June 13, 2014

88 East Broad Street, Fifth Floor, Columbus, Ohio 43215-3506
Phone: 614-466-4514 or 800-282-0370 Fax: 614-466-4490
www.ohioauditor.gov

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ALLEN WATER DISTRICT
ALLEN COUNTY

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May 23, 2014

To the Board of Trustees
Allen Water District
Allen County, Ohio
3230 North Cole
Lima, Ohio 45801

Independent Auditor's Report

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activity of the Allen Water District, Allen County, Ohio (the "District"), as of and for the years ended December 31, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

CPAs and business consultants
An independent firm associated with Moore Stephens
Rea & Associates, Inc.
2300 Baton Rouge Ave. | Lima, OH 45805-1197 | p: 419.331.1040 | f: 419.331.1120
www.reacpa.com

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activity of the Allen Water District, Allen County, Ohio, as of December 31, 2013 and 2012, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 7 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 23, 2014 on our consideration of the Allen Water District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Allen Water District' internal control over financial reporting and compliance.

Rea & Associates, Inc.

Lima, Ohio

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

FINANCIAL HIGHLIGHTS

The total assets of the District exceeded liabilities and deferred inflows of resources on December 31, 2013 by $10,948,912 and on December 31, 2012 by $10,845,175. The District's net position increased by $103,737 (1.0%) in 2013 and decreased by $58,863 (-0.5%) in 2012.

The District's operating revenues increased by $5,525 (0.8%) in 2013 and by $29,762 (4.3%) in 2012. Operating expenses decreased by $9,946 (-1.3%) in 2013 and increased by $37,188 (5.0%) in 2012.

During 2013, the District entered into a new loan to assist in financing construction of the Southeast water line project. This loan was with the Ohio Water Development Authority (OWDA) and has a balance of $657,929 at the end of the fiscal year. The District issued no additional long term debt in 2012.

OVERVIEW OF BASIC FINANCIAL STATEMENTS

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

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

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

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

The notes to the basic financial statements are an integral part of the basic financial statements and provide expanded explanation and detail regarding the information reported in the basic financial statements.

STATEMENTS OF NET POSITION

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

(Table 1)
Net Position

	2013	2012	Difference	2011	Difference
Current and Other Assets	$ 5,551,471	$ 5,899,770	$ (348,299)	$ 6,182,188	$ (282,418)
Capital Assets, Net	12,394,200	11,428,194	966,006	11,698,723	(270,529)
Total Assets	17,945,671	17,327,964	617,707	17,880,911	(552,947)
Long Term Liabilities	5,540,539	5,439,536	101,003	5,965,174	(525,638)
Current and Other Liabilities	1,002,059	589,092	412,967	554,494	34,598
Total Liabilities	6,542,598	6,028,628	513,970	6,519,668	(491,040)
Unearned Special Assessments	454,161	454,161	-	457,205	(3,044)
Deferred Inflows of Resources	454,161	454,161	-	457,205	(3,044)
Net Investment in Capital Assets	5,922,472	5,466,064	456,408	5,243,127	222,937
Unrestricted	5,026,440	5,379,111	(352,671)	5,660,911	(281,800)
Total Net Position	**$ 10,948,912**	**$ 10,845,175**	**$ 103,737**	**$ 10,904,038**	**$ (58,863)**

In 2013 and 2012, the District's net position increased by $103,737 (1.0%) and decreased by $58,863 (-0.5%), respectively. The increase in 2013 is due primarily to an increase in assets related to the Southeast waterline project that began in 2013 which was partially offset by increases in current liabilities related to contracts and retainage payable related to the above project. The decrease in 2012 is primarily the result of a decrease in assessments receivable, and increase in accumulated depreciation, and is partially offset by a decrease in long-term notes payable, and an increase in cash.

Unrestricted net position decreased $352,671 from 2012 to 2013 and $281,800 from 2011 to 2012. Unrestricted net position may be used without constraints established by other legal requirements. Cash and cash equivalents increased $8,580 from 2012 to 2013 due to cash receipts in excess of cash disbursements. Cash and cash equivalents increased $57,957 from 2011 to 2012 due to cash receipts in excess of cash disbursements. Assessments receivable decreased $366,184 between 2012 and 2013 and $348,204 between 2011 and 2012 due to collections on outstanding assessments in both years. Capital assets increased $966,006 between 2012 and 2013 due to the addition of waterline projects in process during 2013, which was partially offset by depreciation expense. Capital assets decreased $270,529 between 2011 and 2012 due to depreciation expense, which was partially offset by additions.

STATEMENTS OF CHANGES IN NET POSITION

Table 2 below summarizes the changes in revenues and expenses and the resulting changes in net position.

(Table 2)
Changes in Net Position

	2013	2012	Difference	2011	Difference
Operating Revenues	$ 725,921	$ 720,396	$ 5,525	$ 690,634	$ 29,762
Operating Expenses (Excluding Depreciation)	449,293	459,752	(10,459)	423,377	36,375
Depreciation	322,357	321,844	513	321,031	813
Total Operating Expenses	771,650	781,596	(9,946)	744,408	37,188
Operating Loss	(45,729)	(61,200)	15,471	(53,774)	(7,426)
Non-Operating Revenues	322,904	322,658	246	359,709	(37,051)
Non-Operating Expenses	(343,438)	(374,679)	31,241	(412,233)	37,554
Capital Contributions	170,000	54,358	115,642	-	54,358
Changes in Net Position	103,737	(58,863)	162,600	(106,298)	47,435
Net Position at Beginning of Year	10,845,175	10,904,038	(58,863)	11,010,336	(106,298)
Net Position at End of Year	**$ 10,948,912**	**$ 10,845,175**	**$ 103,737**	**$ 10,904,038**	**$ (58,863)**

Operating revenues increased $5,525 from 2012 to 2013 due to an increase in contract fee revenue, which was partially offset by a decrease in district fee revenue. The contract fee revenue increased primarily due to increased water usage. Operating expenses, exclusive of depreciation, decreased $10,459 primarily due to decreases in audit fees from the previous year. Audit fees were lower in 2013 as audits are only performed every other year. Interest income decreased $25,056 due to decreasing special assessment receivable balances. Capital permit fees increased $19,592 due to the increase in construction during 2013. Interest expense decreased $31,241 due to decreasing balances of OWDA notes payable.

Operating revenues increased $29,762 from 2011 to 2012 due to an increase in contract fee revenue and district fees. The contract fee revenue increased primarily due to increased water usage and an October 2012 rate increase by the City of Lima. Operating expenses, exclusive of depreciation, increased $36,375 primarily due to increases in contract fees and audit fees. The increase in contract fees expense is associated with an increase in contract fee revenue. Audit fees were higher as audits are only performed every other year. Interest income decreased $17,848 due to decreasing special assessment receivable balances. Capital permit fees decreased $6,974 due to a slight decrease in construction. Interest expense decreased $30,667 due to decreasing balances of OWDA notes payable.

CAPITAL ASSETS

The District had $17,365,416 invested in capital assets (before depreciation) at the end of 2013. This amount increased from 2012 by $1,288,363 due to the addition of water lines as construction in progress. The District had $12,394,200 invested in net capital assets (after depreciation) at the end of 2013. This amount is an increase of $966,006 (8.5%) from the previous year and is primarily due to the additions of construction in progress which was partially offset by depreciation expense.

The District had $16,077,053 invested in capital assets (before depreciation) at the end of 2012. This amount increased from 2011 by $51,315 due to an addition of water lines. The District had $11,428,194 invested in net capital assets (after depreciation) at the end of 2012. This amount is a decrease of $270,529 (-2.3%) from the previous year and is primarily due to depreciation expense which was partially offset by an addition.

(Table 3)
Capital Assets at December 31

	2013	2012	2011
Land Easements	$ 7,186	$ 7,186	$ 7,186
Construction in Progress	1,288,363	-	-
Water Lines	16,062,784	16,062,784	16,011,469
Office Furniture & Equipment	7,083	7,083	7,083
Totals Before Accumulated Depreciation	17,365,416	16,077,053	16,025,738
Accumulated Depreciation	(4,971,216)	(4,648,859)	(4,327,015)
Net Capital Assets	**$12,394,200**	**$11,428,194**	**$11,698,723**

Additional information regarding capital assets can be found in Note H to the basic financial statements.

DEBT

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

(Table 4)
Outstanding Debt, at December 31

	2013	2012	2011
OWDA Loans	$ 5,825,550	$ 5,690,216	$ 6,180,638
Rotary Commission Loans	271,914	271,914	274,958
Total Long Term Debt	6,097,464	5,962,130	6,455,596
Less			
Current Maturities	556,925	522,594	490,422
Net Long Term Debt	$ 5,540,539	$ 5,439,536	$ 5,965,174

CASH

Cash and cash equivalents on December 31, 2013 were $901,540 and on December 31, 2012 were $892,960.

CONTACT INFORMATION

Questions regarding this report and requests for additional information should be forwarded to Michael Bosch, Treasurer, Allen Water District, 3230 North Cole Street, Lima, Ohio 45807 or (419) 996-4679.

Allen Water District
Allen County, Ohio

Statements of Net Position
As of December 31, 2013 and 2012

ASSETS

	2013	2012
CURRENT ASSETS:		
Cash and cash equivalents	$ 901,540	$ 892,960
Accounts receivable	120,167	110,786
Intergovernmental receivable	2,468	2,879
Prepaid insurance	1,671	1,336
Total current assets	1,025,846	1,007,961
NONCURRENT ASSETS:		
Capital Assets:		
Land easements	7,186	7,186
Construction in Progress	1,288,363	-
Water lines	16,062,784	16,062,784
Office furniture and equipment	7,083	7,083
	17,365,416	16,077,053
Less: Accumulated depreciation	(4,971,216)	(4,648,859)
Net capital assets	12,394,200	11,428,194
Other Assets:		
Assessments receivable	4,452,082	4,818,266
Planning costs	73,543	73,543
Total other assets	4,525,625	4,891,809
TOTAL ASSETS	**$ 17,945,671**	**$ 17,327,964**

(Continued)

Allen Water District
Allen County, Ohio

Statements of Net Position - Continued
As of December 31, 2013 and 2012

LIABILITIES AND NET POSITION

	2013	2012
CURRENT LIABILITIES:		
Accounts payable	$ 61,488	$ 57,299
Contracts payable	292,009	-
Accrued interest	5,729	6,140
Payroll taxes accrued and withheld	3,653	3,059
Retainage payable	82,255	-
Notes payable - current portion	556,925	522,594
Total current liabilities	1,002,059	589,092
LONG-TERM LIABILITIES:		
Notes payable	5,540,539	5,439,536
Total long-term liabilities	5,540,539	5,439,536
TOTAL LIABILITIES	6,542,598	6,028,628
DEFERRED INFLOWS OF RESOURCES:		
Unearned special assessments	454,161	454,161
TOTAL DEFERRED INFLOWS OF RESOURCES	454,161	454,161
NET POSITION:		
Net investment in capital assets	5,922,472	5,466,064
Unrestricted	5,026,440	5,379,111
TOTAL NET POSITION	**$ 10,948,912**	**$ 10,845,175**

See accompanying notes to the basic financial statements.

Allen Water District
Allen County, Ohio

Statements of Revenues, Expenses and Changes in Net Position
For the Years Ended December 31, 2013 and 2012

	2013	2012
OPERATING REVENUES:		
District fees	$ 360,715	$ 365,082
Contract fees revenue	365,206	355,314
Total operating revenues	725,921	720,396
OPERATING EXPENSES:		
Office wages	31,650	29,308
Contract fees expense	365,206	358,314
Trustee fees	15,700	14,300
Payroll taxes and workers compensation	739	961
PERS expense	6,859	6,298
Continuing education	-	492
Engineering fees	-	1,023
Legal fees	3,600	6,228
Accounting fees	8,019	8,816
Audit fees	-	14,912
Insurance	3,421	3,803
Office supplies	816	668
Office rent	12,000	12,000
Public relations	592	1,188
Postage	47	-
Easement rent	437	424
Depreciation	322,357	321,844
Transportation	192	739
Other	15	278
Total operating expenses	771,650	781,596
Operating loss	**$ (45,729)**	**$ (61,200)**

(Continued)

Allen Water District
Allen County, Ohio

Statements of Revenues, Expenses and Changes in Net Position - Continued
For the Years Ended December 31, 2013 and 2012

	2013	2012
Operating loss	$ (45,729)	$ (61,200)
NONOPERATING REVENUES (EXPENSES):		
Intergovernmental	5,758	2,358
Interest income	261,089	286,145
Capital permit fees	53,747	34,155
Plan and review/inspection revenue	2,310	-
Interest expense	(343,438)	(374,679)
Net nonoperating revenues (expenses)	(20,534)	(52,021)
Changes in net position before capital contributions	(66,263)	(113,221)
Capital contributions - donated lines	-	51,315
Capital contributions - intergovernmental	170,000	-
Capital contributions - special assessments	-	3,043
Total Capital Contributions	170,000	54,358
Changes in net position	103,737	(58,863)
Net position, beginning of year	10,845,175	10,904,038
Net position, end of year	**$ 10,948,912**	**$ 10,845,175**

See accompanying notes to the basic financial statements.

Allen Water District
Allen County, Ohio

Statements of Cash Flows
For the Years Ended December 31, 2013 and 2012

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from customers	$ 351,334	$ 367,227
Cash received from contract fee revenues	365,206	355,314
Cash payments to suppliers for goods and services	(389,821)	(409,233)
Cash payments for employee services and benefits	(54,354)	(50,819)
Net cash provided by operating activities	272,365	262,489
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Plan and review/inspection revenue	2,310	-
Capital permit fees	53,747	34,155
Connection fees	-	-
Intergovernmental	6,169	2,740
OWDA principal payments	(522,595)	(490,422)
OWDA interest payments	(343,849)	(371,800)
Rotary loan principal payment	-	(3,044)
Intergovernmental contributions on projects	170,000	-
Special assessments collections	365,514	348,203
Special assessment interest income	260,398	282,148
Proceeds from OWDA loans	657,929	-
Planning costs	-	(10,509)
Capital outlay	(914,099)	-
Net cash used by capital and related financing activities	(264,476)	(208,529)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest on cash and cash equivalents	691	3,997
Net increase in cash and cash equivalents	8,580	57,957
Cash and cash equivalents at beginning of year	892,960	835,003
Cash and cash equivalents at end of year	**$ 901,540**	**$ 892,960**

(Continued)

	2013	2012
Non-cash transactions:		
Donated water lines	$ -	$ 51,315

Allen Water District
Allen County, Ohio

Statements of Cash Flows - Continued
For the Years Ended December 31, 2013 and 2012

	2013	2012
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating loss	$ (45,729)	$ (61,200)
ADJUSTMENTS TO RECONCILE OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Depreciation	322,357	321,844
Changes in Assets and Liabilities:		
(Increase) decrease in accounts receivable	(9,381)	2,145
(Increase) decrease in prepaid insurance	335	153
Increase (decrease) in accounts payable (operating)	4,189	(993)
Increase (decrease) in payroll taxes accrued and withheld	594	638
Decrease in vacation and personal leave accrual	-	(98)
Total adjustments	318,094	323,689
Net cash provided by operating activities	**$ 272,365**	**$ 262,489**

See accompanying notes to the basic financial statements.

NOTE A – 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.et.seq to provide water services to the residents of Bath, American, Perry, and Shawnee Townships. A seven (7) member appointed Board of Trustees manage the Allen Water District.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

1. **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, deferred inflows of resources, net position, 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.

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

2. **Basis of Accounting and Measurement Focus**
Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made. The accounting policies of the District conform to accounting policies generally accepted in the United States of America.

For financial statement presentation purposes, the District utilizes the accrual basis of accounting. Under this method of accounting, revenues are recognized when they are earned. Expenses are recognized under the accrual basis of accounting when the liability is incurred.

3. **Budgetary Process**
The Ohio Revised Code requires that each fund be budgeted annually. The District has adopted a budget for the years ended December 31, 2013 and 2012, and has adopted and passed annual appropriations resolutions.

Appropriations – For fiscal years ended December 31, 2013 and 2012, budgetary expenditures could not exceed appropriations at the levels of operating expenditures, direct project expenditures, debt payments, capital expenditures, contract expense, and private development expense and, within each, the amount appropriated for personal service. The District must annually approve appropriation measures and subsequent amendments. For both years, appropriations may not exceed estimated resources.

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

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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

4. **Cash and Investments**
Cash balances are held in a central bank account and various savings accounts. 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.

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

6. **Prepaid Expenses**
Payments made to vendors for services that will benefit periods beyond December 31, 2013 and 2012 are recorded as prepaid items using the consumption method. A current asset of the prepaid amount is recorded at the time of purchase and as an expense in the year in which the services are consumed.

7. **Capital Assets**
Capital assets are stated at cost and are depreciated over the estimated useful lives of the assets from five to fifty years, depending on the type of asset. Equipment is generally depreciated over five to seven years while water lines are generally depreciated over fifty years. Donated assets are reported at their estimated fair value on the date donated. In addition, interest costs incurred during the construction of the water system infrastructure are capitalized and included in capital assets. Once construction is complete and a project is operational, depreciation begins. Prior to 2004, the District recorded the purchase of all assets as capital assets. Since 2004, the District has maintained a capital asset threshold of $500.

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

8. **Planning Costs - Proposed Projects**
The planning costs for proposed projects are comprised of engineering, legal and administrative planning costs which are not allocated to specific projects currently in construction. If the proposed project begins construction, the respective planning costs will be included in capital assets and depreciated (as Note B7 defines). If the proposed project does not enter construction, respective planning costs will be deemed impaired assets and written-off.

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

10. **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.

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

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

12. **Net Position**
Net position represents the difference between assets and liabilities plus deferred inflows of resources. Net investment in capital assets, consist of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvements of those assets. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The District applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available. The District had no restrictions on net position as of December 31, 2013 and 2012.

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

14. **Operating Revenues and Expenses**
Operating revenues are those revenues that are generated directly from the primary activity of the enterprise fund. For the District, these revenues are district fees and contract fee revenue for water services provided. Operating expenses are necessary costs incurred to provide the goods and/or services that are the primary activities of the fund. Revenues and expenses not meeting these definitions are reported as nonoperating.

15. **Accrued Liabilities and Long-Term Obligations**
All payables, accrued liabilities, and long-term obligations are reported in the financial statements when the liability is incurred.

16. **Deferred Inflows of Resources**
As more fully described in Note M to the basic financial statements, the District has implemented GASB Statement No. 65, effective for fiscal years 2013 and 2012 for comparative reporting purposes. The District reports a deferred inflow of resources which represents an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenues) until that time. For the District these amounts consisted of special assessments which are recognized as a receivable; however, they are not recognized as revenue since these properties are in an agricultural deferred status and the revenue cannot be collected until the properties are converted to a non-agricultural use.

17. **Retainage Payable**
The District has recorded a retainage payable for monies held as a retainer on the Southeast water line project.

NOTE C – 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 five-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.

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

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

1. United States Treasury notes, bills, bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including, but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio, its political subdivisions, or other units or agencies of this State or its political subdivisions;
5. Time certificates of deposit or savings or deposit accounts, including, but not limited to, passbook accounts;
6. No-load money market mutual funds consisting exclusively of obligations described in items (1) and (2) of this footnote and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
7. The State Treasurer's investment pool (STAR Ohio);
8. Securities lending agreements in which the District lends securities and the eligible institution agrees to exchange either securities described in division (1) or (2), or cash, or both securities and cash, equal value for equal value;
9. High grade commercial paper in an amount not to exceed five percent of the District's total average portfolio; and,
10. Bankers acceptances for a period not to exceed 270 days and in an amount not to exceed ten percent of the District's average portfolio.

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.

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.

Deposits - Custodial credit risk for deposits is the risk that in the event of bank failure, the District's deposits may not be returned. According to state law, public depositories must give security for all public funds on deposit in excess of those funds that are insured by the Federal Deposit Insurance Corporation (FDIC) or by any other agency or instrumentality of the federal government. These institutions may either specifically collateralize individual accounts in lieu of amounts insured by the FDIC, or may pledge a pool of government securities valued at least 105% of the total value of public monies on deposit at the institution. The District's policy is to deposit money with financial institutions that are able to abide by the laws governing insurance and collateralization of public funds.

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

As of December 31, 2013 and 2012, the carrying amount of the District's deposits was $901,340 and $892,760, respectively. As of December 31, 2013, the District's bank balance of $901,340 is either covered by FDIC or collateralized by the financial institutions' public entity deposit pools in the manner described above. As of December 31, 2012, the District's bank balance of $892,760 is either covered by FDIC or collateralized by the financial institutions' public entity deposit pools in the manner described above. In addition, $200 was carried in a petty cash fund for both fiscal years.

Investments – The District had no investments as of December 31, 2013 and 2012.

NOTE D – ACCOUNTS RECEIVABLE/SPECIAL ASSESSMENTS RECEIVABLE

The accounts receivable balance of $120,167 at December 31, 2013 ($110,786 at December 31, 2012) is current (due 0-30 days). Assessment receivables of $4,452,082 at December 31, 2013 ($4,818,266 at December 31, 2012) represent the remaining balance of construction assessments, less prepayments, and principal amounts received from the county auditor.

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

NOTE E – DISTRICT AND CONTRACT FEES

The District's 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.

NOTE F - COMPENSATED ABSENCES

The District uses the provisions of GASB Statement No. 16, "Accounting for Compensated Absences." Vacation and personal leave benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the employer will compensate the employees for the benefits through paid time off or some other means. Sick leave benefits are not accrued as a liability as employees receive no payment for accrued sick leave upon termination or retirement. The vacation and personal leave accrual as of December 31, 2013 and 2012 was $0 and $0, respectively.

NOTE G – RISK MANAGEMENT

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

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

The Plan's audited financial statements (the most recent available information) conform to accounting principles generally accepted in the United States of America, and reported the following assets, liabilities and member's equity at December 31:

NOTE G – RISK MANAGEMENT-Continued

	2012	2011
Assets	$ 13,100,381	$ 12,501,280
Liabilities	(6,687,193)	(5,328,761)
Members' Equity	$ 6,413,188	$ 7,172,519

You can read the complete audited financial statements for the Ohio Government Risk Management Plan at the Plan's website, www.ohioplan.org.

NOTE H – CAPITAL ASSETS

Capital assets activity for the year ended December 31, 2013 was as follows:

	Ending Balance 12/31/12	Additions	Deletions	Ending Balance 12/31/13
Capital Assets, Not Being Depreciated				
Land Easements	$ 7,186	$ -	$ -	$ 7,186
Contruction in Progress	-	1,288,363	-	1,288,363
Total Capital Assets, Not Being Depreciated	7,186	1,288,363	-	1,295,549
Capital Assets Being Depreciated				
Water Lines	16,062,784	-	-	16,062,784
Office Furniture and Equipment	7,083	-	-	7,083
Total Capital Assets, Being Depreciated	16,069,867	-	-	16,069,867
Less Accumulated Depreciation:				
Water Lines	(4,645,451)	(321,256)	-	(4,966,707)
Office Furniture and Equipment	(3,408)	(1,101)	-	(4,509)
Total Accumulated Depreciation	(4,648,859)	(322,357)	-	(4,971,216)
Total Capital Assets Being Depreciated, Net	11,421,008	(322,357)	-	11,098,651
Total Capital Assets, Net	$ 11,428,194	$ 966,006	$ -	$ 12,394,200

NOTE H – CAPITAL ASSETS-Continued

Capital assets activity for the year ended December 31, 2012 was as follows:

	Ending Balance 12/31/11	Additions	Deletions	Ending Balance 12/31/12
Capital Assets, Not Being Depreciated				
Land Easements	$ 7,186	$ -	$ -	$ 7,186
Total Capital Assets, Not Being Depreciated	7,186	-	-	7,186
Capital Assets Being Depreciated				
Water Lines	16,011,469	51,315	-	16,062,784
Office Furniture and Equipment	7,083	-	-	7,083
Total Capital Assets, Being Depreciated	16,018,552	51,315	-	16,069,867
Less Accumulated Depreciation:				
Water Lines	(4,324,707)	(320,744)	-	(4,645,451)
Office Furniture and Equipment	(2,308)	(1,100)	-	(3,408)
Total Accumulated Depreciation	(4,327,015)	(321,844)	-	(4,648,859)
Total Capital Assets Being Depreciated, Net	11,691,537	(270,529)	-	11,421,008
Total Capital Assets, Net	$ 11,698,723	$ (270,529)	$ -	$ 11,428,194

NOTE H – CAPITAL ASSETS - Continued

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

	2013	2012
Land easement	$ 7,186	$ 7,186
Construction in Progress	1,288,363	-
Water lines:		
Elm and Copus	349,046	349,046
Shawnee	1,447,304	1,447,304
McDonel	859,112	859,112
Hawthorne	211,545	211,545
State Route 309	261,180	261,180
Allentown	1,759,880	1,759,880
Buckeye Road	317,070	317,070
Shagbark and Snowberry	153,781	153,781
Springbrook	883,148	883,148
East Breese	542,554	542,554
Greely Chapel South	170,267	170,267
Dixie/Blue I & II	782,167	782,167
East Bluelick Extension	99,872	99,872
Hawthorne Extension	58,946	58,946
Lee Ann	41,969	41,969
Woodbriar	635,386	635,386
Metzger	98,363	98,363
Linfield	79,094	79,094
Fetter	216,663	216,663
Stewart	202,941	202,941
Dixie North - King	149,768	149,768
Sweger-Fraunfelter	231,822	231,822
Diller/Eastown/Frank	526,584	526,584
Eastown	185,540	185,540
Colony Park	264,676	264,676
Dixie North #3	80,107	80,107
Zurmehly Road Extension	44,470	44,470
Bath Loop	402,204	402,204
Cotner/Wapak	231,657	231,657
Shawnee Phase II	884,160	884,160
Fort Amanda Loop	180,962	180,962
Cole Street Extension Loop	139,666	139,666
North West Street	129,588	129,588
North Cole Street Extension Loop	29,288	29,288
Bluelick/Thayer	306,665	306,665
Berryhill	205,454	205,454
Developer Donated Lines	2,899,885	2,899,885
Total Water Lines	16,062,784	16,062,784
Office furniture and equipment	7,083	7,083
Total Capital Assets	17,365,416	16,077,053
Less accumulated depreciation	(4,971,216)	(4,648,859)
Net Capital Assets	$ 12,394,200	$ 11,428,194

NOTE I – CURRENT AND LONG-TERM DEBT

Long-term debt obligations and the related transactions for the years ended December 31, 2013 and 2012 are summarized below:

	Balance 12/31/12	Additions	Reductions	Balance 12/31/13	Due Within One Year
Note Payable OWDA #1445, payable in 50 semiannual installments of $15,886 starting January 1, 1993, including interest at 7.56%, due July, 2017	$ 117,167	$ -	$ 22,875	$ 94,292	$ 24,604
Note Payable OWDA #1446, payable in 50 semiannual installments of $758 starting January 1, 1993, including interest at 7.45%, due July, 2017	5,612	-	1,098	4,514	1,180
Note Payable OWDA #1447, payable in 50 semiannual installments of $75,646 starting January 1, 1994, including interest at 7.54%, due July, 2018	660,339	-	101,502	558,837	109,156
Note Payable OWDA #1448, payable in 50 semiannual installments of $42,821 starting January 1, 1994, including interest at 7.24%, due July, 2018	377,051	-	58,343	318,708	62,567
Note Payable OWDA #1449, payable in 50 semiannual installments of $10,558 starting January 1, 1994, including interest at 7.21%, due July, 2018	93,048	-	14,407	78,641	15,446
Note Payable OWDA #2139, payable in 50 semiannual installments of $5,095 starting July 1, 2001, including interest at 5.77%, due January, 2026	92,297	-	4,934	87,363	5,223

NOTE I – CURRENT AND LONG-TERM DEBT – Continued

	Balance 12/31/12	Additions	Reductions	Balance 12/31/13	Due Within One Year
Note Payable OWDA #2961, payable in 50 semiannual installments of $6,391 starting January 1, 1996, including interest at 6.72%, due July, 2020	$ 73,361	$ -	$ 7,852	$ 65,509	$ 8,379
Note Payable OWDA #2975, payable in 50 semiannual installments of $29,635 starting January 1, 1997, including interest at 6.72%, due July, 2021	374,302	-	34,117	340,185	36,410
Note Payable OWDA #3017, payable in 50 semiannual installments of $71,784 starting January 1, 1995, including interest at 6.85%, due July, 2019	732,666	-	93,381	639,285	99,778
Note Payable OWDA #3018, payable in 50 semiannual installments of $8,149 starting July 1, 1995, including interest at 6.24%, due January, 2020	90,204	-	10,669	79,535	11,334
Note Payable OWDA #3036, payable in 50 semiannual installments of $6,948 starting January 1, 1995, including interest at 6.51%, due July, 2019	71,717	-	9,227	62,490	9,827
Note Payable OWDA #3111, payable in 50 semiannual installments of $11,650 starting January 1, 1995, including interest at 5.9%, due July, 2019	122,737	-	16,059	106,678	17,007

NOTE I – CURRENT AND LONG-TERM DEBT – Continued

	Balance 12/31/12	Additions	Reductions	Balance 12/31/13	Due Within One Year
Note Payable OWDA #3129, payable in 50 semiannual installments of $6,106 starting January 1, 1998, including interest at 5.94%, due July, 2023	$ 90,136	$ -	$ 6,858	$ 83,278	$ 7,265
Note Payable OWDA #3130, payable in 50 semiannual installments of $4,394 starting July 1, 1999, including interest at 6.32%, due January, 2024	68,154	-	4,480	63,674	4,764
Note Payable OWDA #3131, payable in 50 semiannual installments of $22,602 starting July 1, 1999, including interest at 5.66%, due January, 2024	362,632	-	24,679	337,953	26,075
Note Payable OWDA #3132, payable in 50 semiannual installments of $16,091 starting January 1, 2000, including interest at 5.54%, due July, 2024	268,312	-	17,317	250,995	18,277
Note Payable OWDA #3209, payable in 50 semiannual installments of $6,886 starting July 1, 2001, including interest at 6.13%, due January, 2026	122,179	-	6,378	115,801	6,775
Note Payable OWDA #3210, payable in 50 semiannual installments of $6,650 starting July 1, 2001, including interest at 6.13%, due January, 2026	117,990	-	6,159	111,831	6,543

NOTE I – CURRENT AND LONG-TERM DEBT – Continued

	Balance 12/31/12	Additions	Reductions	Balance 12/31/13	Due Within One Year
Note Payable OWDA #3230, payable in 50 semiannual installments of $25,851 starting July 1, 2001, including interest at 6.41%, due January, 2026	$ 451,417	$ -	$ 23,131	$ 428,286	$ 24,637
Note Payable OWDA #3297, payable in 50 semiannual installments of $3,104 starting July 1, 2001, including interest at 6.39%, due January, 2026	54,272	-	2,785	51,487	2,965
Note Payable OWDA #3874, payable in 50 semiannual installments of $7,864 starting January 1, 2004, including interest at 4.28%, due July, 2028	176,862	-	8,246	168,616	8,602
Note Payable OWDA #3910, payable in 50 semiannual installments of $6,226 starting January 1, 2004, including interest at 4.28%, due July, 2028	140,016	-	6,528	133,488	6,810
Note Payable OWDA #4056, payable in 50 semiannual installments of $22,038 starting January 1, 2005, including interest at 4.16%, due July, 2029	522,397	-	22,576	499,821	23,525
Note Payable OWDA #4279, payable in 50 semiannual installments of $3,182 starting January 1, 2006, including interest at 4.0%, due July, 2030	79,555	-	3,214	76,341	3,344

NOTE I – CURRENT AND LONG-TERM DEBT – Continued

	Balance 12/31/12	Additions	Reductions	Balance 12/31/13	Due Within One Year
Note Payable OWDA #4566, payable in 50 semiannual installments of $16,517 starting January 1, 2007, including interest at 4.09%, due July, 2031	$ 425,793	$ -	$ 15,780	$ 410,013	$ 16,432
Note Payable OWDA #6589*	-	657,929	-	657,929	-
Ohio Water & Sewer Rotary See additional documentation below	271,914	-	-	271,914	-
Compensated Absences	-	-	-	-	-
Totals	**$ 5,962,130**	**$ 657,929**	**$ 522,595**	**$ 6,097,464**	**$ 556,925**

* This loan was not finalized as of 12/31/2013.

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

As part of the agreement, whenever the use of the agricultural land changes, the full amount of the assessment is to be charged for the portion of the property that was exempted under Section 929.03 of the Ohio Revised Code, and repayment is required to be made to the Ohio Water and Sewer Rotary Commission. No amortization schedule is shown for these loans as there is no set repayment schedule.

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

NOTE I – CURRENT AND LONG-TERM DEBT – Continued

	Balance 12/31/11	Additions	Reductions	Balance 12/31/12	Due Within One Year
Note Payable OWDA #1445, payable in 50 semiannual installments of $15,886 starting January 1, 1993, including interest at 7.56%, due July, 2017	$ 138,434	$ -	$ 21,267	$ 117,167	$ 22,875
Note Payable OWDA #1446, payable in 50 semiannual installments of $758 starting January 1, 1993, including interest at 7.45%, due July, 2017	6,634	-	1,022	5,612	1,098
Note Payable OWDA #1447, payable in 50 semiannual installments of $75,646 starting January 1, 1994, including interest at 7.54%, due July, 2018	754,725	-	94,386	660,339	101,502
Note Payable OWDA #1448, payable in 50 semiannual installments of $42,821 starting January 1, 1994, including interest at 7.24%, due July, 2018	431,455	-	54,404	377,051	58,343
Note Payable OWDA #1449, payable in 50 semiannual installments of $10,558 starting January 1, 1994, including interest at 7.21%, due July, 2018	106,486	-	13,438	93,048	14,407

NOTE I – CURRENT AND LONG-TERM DEBT – Continued

	Balance 12/31/11	Additions	Reductions	Balance 12/31/12	Due Within One Year
Note Payable OWDA #2139, payable in 50 semiannual installments of $5,095 starting July 1, 2001, including interest at 5.77%, due January, 2026	$ 96,958	$ -	$ 4,661	$ 92,297	$ 4,934
Note Payable OWDA #2961, payable in 50 semiannual installments of $6,391 starting January 1, 1996, including interest at 6.72%, due July, 2020	80,718	-	7,357	73,361	7,852
Note Payable OWDA #2975, payable in 50 semiannual installments of $29,635 starting January 1, 1997, including interest at 6.72%, due July, 2021	406,271	-	31,969	374,302	34,117
Note Payable OWDA #3017, payable in 50 semiannual installments of $71,784 starting January 1, 1995, including interest at 6.85%, due July, 2019	820,061	-	87,395	732,666	93,381
Note Payable OWDA #3018, payable in 50 semiannual installments of $8,149 starting July 1, 1995, including interest at 6.24%, due January, 2020	100,246	-	10,042	90,204	10,669
Note Payable OWDA #3036, payable in 50 semiannual installments of $6,948 starting January 1, 1995, including interest at 6.51%, due July, 2019	80,380	-	8,663	71,717	9,227

NOTE I – CURRENT AND LONG-TERM DEBT – Continued

	Balance 12/31/11	Additions	Reductions	Balance 12/31/12	Due Within One Year
Note Payable OWDA #3111, payable in 50 semiannual installments of $11,650 starting January 1, 1995, including interest at 5.9%, due July, 2019	$ 137,901	$ -	$ 15,164	$ 122,737	$ 16,059
Note Payable OWDA #3129, payable in 50 semiannual installments of $6,106 starting January 1, 1998, including interest at 5.94%, due July, 2023	96,609	-	6,473	90,136	6,858
Note Payable OWDA #3130, payable in 50 semiannual installments of $4,394 starting July 1, 1999, including interest at 6.32%, due January, 2024	72,368	-	4,214	68,154	4,480
Note Payable OWDA #3131, payable in 50 semiannual installments of $22,602 starting July 1, 1999, including interest at 5.66%, due January, 2024	385,989	-	23,357	362,632	24,679
Note Payable OWDA #3132, payable in 50 semiannual installments of $16,091 starting January 1, 2000, including interest at 5.54%, due July, 2024	284,720	-	16,408	268,312	17,317
Note Payable OWDA #3209, payable in 50 semiannual installments of $6,886 starting July 1, 2001, including interest at 6.13%, due January, 2026	128,183	-	6,004	122,179	6,378

NOTE I – CURRENT AND LONG-TERM DEBT – Continued

	Balance 12/31/11	Additions	Reductions	Balance 12/31/12	Due Within One Year
Note Payable OWDA #3210, payable in 50 semiannual installments of $6,650 starting July 1, 2001, including interest at 6.13%, due January, 2026	$ 123,789	$ -	$ 5,799	$ 117,990	$ 6,159
Note Payable OWDA #3230, payable in 50 semiannual installments of $25,851 starting July 1, 2001, including interest at 6.41%, due January, 2026	473,133	-	21,716	451,417	23,131
Note Payable OWDA #3297, payable in 50 semiannual installments of $3,104 starting July 1, 2001, including interest at 6.39%, due January, 2026	56,887	-	2,615	54,272	2,785
Note Payable OWDA #3874, payable in 50 semiannual installments of $7,864 starting January 1, 2004, including interest at 4.28%, due July, 2028	184,766	-	7,904	176,862	8,246
Note Payable OWDA #3910, payable in 50 semiannual installments of $6,226 starting January 1, 2004, including interest at 4.28%, due July, 2028	146,273	-	6,257	140,016	6,528
Note Payable OWDA #4056, payable in 50 semiannual installments of $22,038 starting January 1, 2005, including interest at 4.16%, due July, 2029	544,062	-	21,665	522,397	22,576

NOTE I – CURRENT AND LONG-TERM DEBT – Continued

	Balance 12/31/11	Additions	Reductions	Balance 12/31/12	Due Within One Year
Note Payable OWDA #4279, payable in 50 semiannual installments of $3,182 starting January 1, 2006, including interest at 4.0%, due July, 2030	$ 82,644	$ -	$ 3,089	$ 79,555	$ 3,214
Note Payable OWDA #4566, payable in 50 semiannual installments of $16,517 starting January 1, 2007, including interest at 4.09%, due July, 2031	440,946	-	15,153	425,793	15,779
Ohio Water & Sewer Rotary	274,958	-	3,044	271,914	-
Compensated Absences	98	-	98	-	
Totals	**$ 6,455,694**	**$ -**	**$ 493,564**	**$ 5,962,130**	**$ 522,594**

Future principal and interest payments on all OWDA loans are as follows:

Year Ending December 30,	OWDA Loans Principal	Interest	Total
2014	556,925	308,697	865,622
2015	593,564	272,058	865,622
2016	632,670	232,953	865,623
2017	657,791	191,206	848,997
2018	555,392	147,956	703,348
2019-2023	1,403,134	384,731	1,787,865
2024-2028	659,627	90,986	750,613
2029-2031	108,518	5,653	114,171
Total	$ 5,167,621	$ 1,634,240	$ 6,801,861

In connection with the OWDA loans, the District has pledged future revenues to repay this debt. The loans are payable through their final maturities solely from operating and certain nonoperating revenues received during the course of business. Revenues available for these loans for 2013 and 2012 were $757,713 and $687,740, respectively. Principal and interest payments totaled $866,444 and $862,222 for the years 2013 and 2012, respectively. The coverage ratios for these loans were 0.87 and 0.80 for the years ended December 31, 2013 and 2012, respectively.

NOTE J – DEFINED BENEFIT RETIREMENT PLAN

Ohio Public Employees Retirement System

A. The Ohio Public Employees Retirement System (OPERS) administers three separate pension plans as described below:

1) The Traditional Pension Plan (TP) – a cost-sharing multiple-employer defined benefit pension plan.
2) The Member-Directed Plan (MD) – a defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20% per year). Under the Member-Directed Plan members accumulate retirement assets equal to the value of member and (vested) employer contributions plus any investment earnings.
3) The Combined Plan (CO) – a cost-sharing multiple-employer defined benefit pension plan. Under the Combined Plan, OPERS invests employer contributions to provide a formula retirement benefit similar in nature to the Traditional Pension Plan benefit. Member contributions, the investment of which is self-directed by the members, accumulate retirement assets in a manner similar to the Member-Directed Plan.

B. OPERS provides retirement, disability, survivor and death benefits and annual cost-of-living adjustments to members of the Traditional Pension and Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits.

C. Authority to establish and amend benefits is provided in Chapter 145 of the Ohio Revised Code.

D. OPERS issues a stand-alone financial report. Interested parties may obtain a copy by visiting https://www.opers.org/investments/cafr.shtml, writing to OPERS, Attention: Finance Director, 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 222-5601 or 1-800-222-7377.

E. The Ohio Revised Code provides statutory authority for member and employer contributions. For 2013, 2012, and 2011, member and employer contribution rates were consistent across all three plans. While members in the state and local divisions may participate in all three plans, law enforcement and public safety divisions exist only within the Traditional Pension Plan.

The member contribution rates for 2013, 2012, and 2011 were 10.0%, 10.0%, and 10.0%, respectively, for members in state and local classifications.

The employer contribution rates were 14.00%, 14.00%, and 14.00%, respectively, for state and local employers for the years ended December 31, 2013, 2012, and 2011 for the District.

The District's contributions to OPERS for the years ended December 31, 2013, 2012, and 2011 were \$6,859, \$6,119, and \$5,982, respectively, which were equal to 100% of the required contributions for each of those years.

NOTE K – POSTEMPLOYMENT BENEFITS

Ohio Public Employees Retirement System

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

NOTE K – POSTEMPLOYMENT BENEFITS (Continued)

Ohio Public Employees Retirement System (Continued)

OPERS maintains a cost-sharing multiple employer defined benefit post-employment healthcare plan, which includes a medical plan, prescription drug program, and Medicare Part B premium reimbursement, to qualifying members of both the TP and the CO Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits, including post-employment health care coverage.

In order to qualify for post-employment health care coverage, age and service retirees under the Traditional Pension and Combined Plans must have 10 or more years of qualifying Ohio service credit. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available. The health care coverage provided by OPERS meets the definition of an Other Post-Employment Benefit (OPEB) as described in GASB Statement No. 45.

The Ohio Revised Code permits, but does not mandate, OPERS to provide OPEB benefits to its eligible members and beneficiaries. Authority to establish and amend the OPEB Plan is provided in Chapter 145 of the Ohio Revised Code.

OPERS issues a stand-alone financial report. Interested parties may obtain a copy by visiting https://www.opers.org/investments/cafr.shtml, writing OPERS, 277 East Town Street, Columbus, Ohio 43215-4642, or calling 614-222-5601 or 800-222-7377.

B. The Ohio Revised Code provides the statutory authority requiring public employers to fund post-retirement health care through their contributions to OPERS. A portion of each employer's contribution to OPERS is set aside for the funding of post-retirement health care coverage.

Employer's contributions are expressed as a percentage of the covered payroll of active members. In 2013, 2012, and 2011, state and local employers contributed at a rate of 14.0% of covered payroll. The Ohio Revised Code currently limits the employer contribution rate not to exceed 14.0% of covered payroll for state and local employer units. Active members do not make contributions to the OPEB Plan.

OPERS' Post Employment Health Care plan was established under, and is administrated in accordance with, Internal Revenue Code 401(h). Each year, the OPERS Board of Trustees determines the portion of the employer contribution rate that will be set aside for funding of post-employment health care benefits. For 2013 and 2012, the employer contributions allocated to the health care for members in the Traditional was 1.0% and 4.0%, respectively. The portion of employer contributions allocated to health care for members in the Combined Plan was 1.0% and 6.05%, respectively during calendar years 2013 and 2012. The OPERS Board of Trustees is also authorized to establish rules for the payment of a portion of the health care benefits provided, by the retiree or their surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected.

C. The employer contributions that were used to fund post-employment benefits were $490 for 2013, $1,748 for 2012, and $1,709 for 2011 which were equal to the required contributions for those years.

D. Changes to the health care plan were adopted by the OPERS Board of Trustees on September 19, 2012, with a transition plan commencing January 1, 2014. With the recent passage of pension legislation under SB 343 and the approved health care changes, OPERS expects to be able to consistently allocate 4 percent of the employer contributions toward the health care fund after the end of the transition period.

NOTE L – CONTINGENT LIABILTIES

The District's general legal counsel is Spitler Huffman, LLP, Rossford, Ohio.

Pending or Threatened Litigation – During the years ended December 31, 2013 and 2012, the District had no pending contingent liabilities of which management is aware.

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 water systems. No claim against these contractual obligations has been made or is anticipated that would result in an unfavorable outcome to the District.

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 the District.

NOTE M – CHANGES IN ACCOUNTING PRINCIPLES

For 2013 and 2012, the District implemented Governmental Accounting Standards Board (GASB) Statement No. 62, "Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements," GASB Statement No. 63, "Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position," GASB Statement No. 65, "Items Previously Reported as Assets and Liabilities", GASB Statement No. 66, "Technical Corrections – 2012 – An Amendment of GASB Statements No. 10 and No. 62," GASB Statement No. 69, "Government Combinations and Disposals of Government Operations," and GASB Statement No. 70, "Accounting and Financial Reporting for Nonexchange Financial Guarantees."

Statement No. 62 incorporated into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins of the American Institute of Certified Public Accountants' (AICPA) Committee on Accounting Procedure issued on or before November 30, 1989 which does not conflict with or contradict GASB pronouncements.

Statement No. 63 identifies net position, rather than net assets, as the residual of all other elements presented in a statement of financial position.

Statement No. 65 provides guidance on how to properly classify items that were previously reported as assets and liabilities as deferred outflows of resources or deferred inflows of resources. In addition, guidance is provided on recognizing certain items that were previously reported as assets and liabilities as outflows of resources (expenses or expenditures) or inflows of resources (revenues).

Statement No. 66 resolves conflicting guidance that resulted from the issuance of two pronouncements, Statements No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, and No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*.

This Statement amends Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*, by removing the provision that limits fund-based reporting of an entity's risk financing activities to the general fund and the internal service fund type. As a result, governments should base their decisions about fund type classification on the nature of the activity to be reported, as required in Statement 54 and Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*.

NOTE M – CHANGES IN ACCOUNTING PRINCIPLES (Continued)

This Statement also amends Statement 62 by modifying the specific guidance on accounting for (1) operating lease payments that vary from a straight-line basis, (2) the difference between the initial investment (purchase price) and the principal amount of a purchased loan or group of loans, and (3) servicing fees related to mortgage loans that are sold when the stated service fee rate differs significantly from a current (normal) servicing fee rate. These changes clarify how to apply Statement No. 13, *Accounting for Operating Leases with Scheduled Rent Increases*, and result in guidance that is consistent with the requirements in Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*, respectively.

Statement No. 69 establishes accounting and financial reporting standards related to government combinations and disposals of government operations. As used in this Statement, the term *government combinations* includes a variety of transactions referred to as mergers, and transfers of operations.

Statement No. 70 improves accounting and financial reporting by state and local governments that extend and receive non exchange financial guarantees. This statement requires a government that extends a nonexchange financial guarantee to recognize a liability when qualitative factors and historical data, if any, indicate that it is more likely than not that the government will be required to make a payment on the guarantee.

The implementation of GASB Statements No. 62, 66, 69, and 70 had no effect on the financial statements. The implementation of GASB Statement No. 63 and 65 had no effect on beginning net position, but did result in certain financial statement terminology and classification changes.

NOTE N – CONTRACTUAL COMMITMENTS

During fiscal year 2013, the District bid out and entered into a contract with Underground Utilities, Inc. to construct a waterline for the Southeast Water Line Project. The contract amount was $1,486,016 and as of December 31, 2013, a total of $1,028,187 had been completed and stored, of which $82,255 was held as retainage payable and $292,009 was held as contracts payable.

Rea & associates a brighter way

May 23, 2014

To the Board of Trustees
Allen Water District
Allen County, Ohio
3230 North Cole
Lima, Ohio 45801

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*

We have audited, in accordance with the 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, the financial statements of the business-type activity of the Allen Water District, Allen County, Ohio (the "District") as of and for the years ended December 31, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated May 23, 2014.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

CPAs and business consultants
www.reacpa.com

Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Rea & Associates, Inc.

Lima, Ohio

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Dave Yost • Auditor of State

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
JUNE 26, 2014

88 East Broad Street, Fourth Floor, Columbus, Ohio 43215-3506
Phone: 614-466-4514 or 800-282-0370 Fax: 614-466-4490
www.ohioauditor.gov