



**Auditor of State  
Betty Montgomery**



ALLEN WATER DISTRICT  
ALLEN COUNTY

TABLE OF CONTENTS

| TITLE   | PAGE |
|---|------|
| Independent Accountants' Report.....  | 1    |
| Balance Sheets  |      |
| As of December 31, 2003 and 2002 .....  | 3    |
| Statements of Revenues, Expenses, and Changes in Accumulated Deficit  |      |
| For the Years Ended December 31, 2003 and 2002 .....  | 4    |
| Statements of Cash Flows  |      |
| For the Years Ended December 31, 2003 and 2002 .....  | 5    |
| Notes to the General-Purpose Financial Statements .....   | 7    |
| Independent Accountants' Report on Compliance and on<br>Internal Control Required by <i>Government Auditing Standards</i> ..... | 21   |
| Schedule of Prior Audit Findings.....   | 23   |

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**Auditor of State  
Betty Montgomery**

**INDEPENDENT ACCOUNTANTS' REPORT**

Allen Water District  
Allen County  
2609 West Breese Road  
P. O. Box 274  
Lima, Ohio 45802

To the Members of the Board:

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, 2003 and 2002, as listed in the table of contents. 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, 2003 and 2002, and the results of its operations and the 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 June 15, 2004, 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 cursive script that reads "Betty Montgomery".

**Betty Montgomery**  
Auditor of State

June 15, 2004

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**ALLEN WATER DISTRICT  
ALLEN COUNTY**

**BALANCE SHEETS  
AS OF DECEMBER 31, 2003 AND 2002**

|  | <b>2003</b>         | <b>2002</b>         |
|--|---------------------|---------------------|
| <b>Assets</b>  |                     |                     |
| <b>Current Assets</b>  |                     |                     |
| Cash in checking and petty cash  | \$278,101           | \$290,930           |
| Accounts receivable  | 37,105              | 32,650              |
| Prepaid insurance  | 2,259               | 1,498               |
| Total Current Assets   | 317,465             | 325,078             |
| <b>Restricted Assets</b>   |                     |                     |
| Investments in restricted funds  | 1,121,923           | 976,151             |
| Assessments receivable   | 6,186,866           | 5,976,638           |
| Total Restricted Assets  | 7,308,789           | 6,952,789           |
| <b>Property, Plant and Equipment</b>   |                     |                     |
| Land easements   | 7,186               | 7,036               |
| Water lines  | 11,285,618          | 10,653,256          |
| Developer donated lines  | 1,435,271           | 1,427,383           |
| Office furniture and equipment   | 22,859              | 22,859              |
|  | 12,750,934          | 12,110,534          |
| Less: Accumulated depreciation   | (1,902,672)         | (1,653,384)         |
| Net Property and Equipment   | 10,848,262          | 10,457,150          |
| <b>Other Assets</b>  |                     |                     |
| Planning costs-general, net of \$95,038<br>accumulated amortization (\$86,975 in 2002) | 324,162             | 321,341             |
| Total Assets   | \$18,798,678        | \$18,056,358        |
| <b>Liabilities and Equity</b>  |                     |                     |
| <b>Current Liabilities</b>   |                     |                     |
| OWDA Loans payable (current portion)   | \$461,859           | \$232,795           |
| Accounts payable   | 30,532              | 22,868              |
| Accrued interest   | 256,926             | 261,126             |
| Vacation accrual   | 259                 | 468                 |
| Payroll taxes accrued and withheld   | 2,652               | 2,283               |
| Total Current Liabilities  | 752,228             | 519,540             |
| <b>Long-Term Liabilities</b>   |                     |                     |
| Deferred revenues  | 446,935             | 415,322             |
| OWDA Loans Payable   | 7,699,002           | 7,527,551           |
| OWSRC Loans Payable  | 275,335             | 275,335             |
| Total Long-Term Liabilities  | 8,421,272           | 8,218,208           |
| <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  | (1,134,274)         | (1,440,842)         |
| Total Fund Equity  | 9,625,178           | 9,318,610           |
| <b>Total Liabilities and Equity</b>  | <b>\$18,798,678</b> | <b>\$18,056,358</b> |

*See accompanying notes to the general-purpose financial statements.*

**ALLEN WATER DISTRICT  
ALLEN COUNTY**

**STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN ACCUMULATED DEFICIT  
FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002**

|  | <u>2003</u>                 | <u>2002</u>                 |
|--|-----------------------------|-----------------------------|
| <b>Operating Revenues</b>  |                             |                             |
| District fees  | \$274,853                   | \$269,961                   |
| Contract fees revenue  | 147,092                     | 152,727                     |
| Total Operating Revenues   | <u>421,945</u>              | <u>422,688</u>              |
| <b>Operating Expenses</b>  |                             |                             |
| Office wages   | 21,396                      | 20,819                      |
| Casual Labor   | 480                         |                             |
| Officer Pay  | 600                         |                             |
| Contract fees expense  | 147,033                     | 152,734                     |
| Trustee fees   | 15,900                      | 10,950                      |
| Earned vacation  |                             | 164                         |
| Payroll taxes and workers compensation                               | 833                         | 624                         |
| PERS expense   | 5,163                       | 4,305                       |
| Engineering fees   | 17,273                      | 18,224                      |
| Legal fees   | 28,253                      | 20,975                      |
| Accounting   | 8,132                       | 18,018                      |
| Audit fees   |                             | 14,585                      |
| Insurance  | 3,298                       | 2,493                       |
| Telephone/data communications  | 3,277                       | 3,270                       |
| Office supplies  | 1,962                       | 1,315                       |
| Equipment maintenance  | 905                         | 1,293                       |
| Rent   | 7,200                       | 7,200                       |
| Office maintenance   | 1,144                       | 852                         |
| Postage  | 554                         | 1,086                       |
| Easement rent  | 325                         | 350                         |
| Utilities  | 1,344                       | 1,298                       |
| Depreciation   | 249,288                     | 246,121                     |
| Amortization   | 8,797                       | 8,797                       |
| Bank Charges   |                             | 29                          |
| Transportation   | 3,722                       | 2,182                       |
| Miscellaneous  |                             | 126                         |
| Total Operating Expenses   | <u>526,879</u>              | <u>537,810</u>              |
| Operating loss   | (104,934)                   | (115,122)                   |
| <b>Other Income (Expense)</b>  |                             |                             |
| Tap fees   | 50,209                      | 38,985                      |
| Tap fee recoupment   | (9,329)                     |                             |
| Intergovernmental  | 5,499                       |                             |
| Interest income  | 378,776                     | 397,081                     |
| Plan and review/inspection revenue                                   | 13,833                      | 21,377                      |
| Plan and review/inspection expenses                                  | (12,750)                    | (19,240)                    |
| CIP revenues   | 5,824                       | 4,942                       |
| Meter fees   | 3,435                       | 2,846                       |
| Interest expense   | (522,470)                   | (528,626)                   |
| Miscellaneous revenue  | 79                          | 424                         |
| Net other income (expense)   | <u>(86,894)</u>             | <u>(82,211)</u>             |
| Net Income/(Loss) Before Contributions                               | (191,828)                   | (197,333)                   |
| Capital contributions - donated lines                                | 7,888                       | 128,233                     |
| Capital contributions - intergovernmental                            | 50,000                      |                             |
| Capital contributions - special assessments                          | 440,508                     |                             |
| Total Capital Contributions & Special Assessments                    | <u>498,396</u>              | <u>128,233</u>              |
| Net Income/(Loss) for the Year                                       | 306,568                     | (69,100)                    |
| Accumulated deficit, beginning of the year<br>(As restated for 2002) | <u>(1,440,842)</u>          | <u>(1,371,742)</u>          |
| <b>Accumulated deficit, end of year</b>                              | <b><u>(\$1,134,274)</u></b> | <b><u>(\$1,440,842)</u></b> |

See accompanying notes to the general-purpose financial statements.



**ALLEN WATER DISTRICT  
ALLEN COUNTY**

**STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002**

|  | <b>2003</b>      | <b>2002</b>      |
|--|------------------|------------------|
| <b>Cash Flows From Operating Activities</b>  |                  |                  |
| Cash received from customers   | \$270,876        | \$290,041        |
| Cash received from contract fee revenues   | 146,680          | 162,299          |
| Cash payments to suppliers for goods and services  | (218,065)        | (251,618)        |
| Cash payments for employee services and benefits   | (43,732)         | (35,982)         |
| Net cash provided by operating activities  | 155,759          | 164,740          |
| <b>Cash Flows From Non-Capital Financing Activities</b>                                      |                  |                  |
| Other income   | 79               | 424              |
| <b>Cash Flows From Capital and Related Financing Activities</b>                              |                  |                  |
| Tap fees   | 50,209           | 38,985           |
| Tap fee recoupment   | (9,329)          |                  |
| Plan and review/inspection revenue   | 13,833           | 21,377           |
| Plan and review/inspection expenses  | (12,750)         | (19,240)         |
| CIP revenues   | 5,783            | 4,942            |
| Meter fees   | 3,410            | 2,846            |
| Intergovernmental  | 5,499            |                  |
| OWDA principal payments  | (232,797)        | (217,947)        |
| OWDA interest payments   | (526,670)        | (536,020)        |
| Rotary Loan principal payment  |                  | (3,585)          |
| Intergovernmental Contributions on project   | 50,000           |                  |
| Special assessments collections  | 259,701          | 153,516          |
| Special assessment interest income   | 367,343          | 377,727          |
| Proceeds from OWDA Loans   | 633,313          |                  |
| Proceeds from Rotary Loan  |                  | 42,440           |
| Capital outlay   | (641,873)        | (48,068)         |
| Net cash provided (used) by capital and related financing activities                         | (34,328)         | (183,027)        |
| <b>Cash Flows From Investing Activities</b>  |                  |                  |
| Interest on cash and investments   | 11,433           | 19,354           |
| Net increase (decrease) in cash and cash equivalents   | 132,943          | 1,491            |
| Cash and cash equivalents at beginning of year   | 1,267,081        | 1,265,590        |
| Cash and cash equivalents at end of year   | 1,400,024        | 1,267,081        |
| <b>Reconciliation of Operating Loss to Net Cash Provided by Operating Activities:</b>        |                  |                  |
| Operating loss   | (104,934)        | (115,122)        |
| <b>Adjustments to Reconcile Operating Loss to Net Cash Provided by Operating Activities:</b> |                  |                  |
| Depreciation and amortization  | 258,085          | 254,918          |
| <b>Changes in Assets and Liabilities:</b>  |                  |                  |
| (Increase) decrease in accounts receivable   | (4,455)          | 30,462           |
| (Increase) decrease in prepaid insurance   | (761)            | (565)            |
| Increase (decrease) in accounts payable  | 7,664            | (5,833)          |
| Increase in accrued wages and benefits   | 160              | 880              |
| Total adjustments  | 260,693          | 279,862          |
| <b>Net cash provided by operating activities</b>   | <b>\$155,759</b> | <b>\$164,740</b> |

*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, 2003 AND 2002**

**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 Ohio Revised Code 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 manages the Allen Water District.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

**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:

1. **Proprietary Fund Type** - This fund type accounts for operations that are organized to be self-supporting through user charges. The fund used by the District in this category 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 was consistently applied in preparation of the accompanying financial statements.
2. **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 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.

**C. 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, 2003 and 2002, and has adopted and passed annual appropriations and resolutions.

**ALLEN WATER DISTRICT  
ALLEN COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002  
(Continued)**

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

**1. Appropriations**

Budgetary expenditures (that is, disbursements and encumbrances) may not exceed appropriations at the fund, function 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.

**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 fees charged to customers and are shown at their net realizable value.

**F. Prepaid Expenses**

Payments made to vendors for services that will benefit periods beyond December 31, 2003 and 2002 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.

**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. 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 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.

**ALLEN WATER DISTRICT  
ALLEN COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002  
(Continued)**

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

**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 2003 and 2002 was \$8,797 and \$8,797 respectively.

**K. Interest Expense**

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

**L. Revenue Recognition**

Revenues for district 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).

**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. ACCUMULATED FUND DEFICIT**

The accumulated deficit balances as of December 31, 2003 and 2002 were \$1,134,274 and \$1,440,842, 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).

**ALLEN WATER DISTRICT  
ALLEN COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002  
(Continued)**

**4. EQUITY IN POOLED CASH AND INVESTMENTS**

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.

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.

**ALLEN WATER DISTRICT  
ALLEN COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002  
(Continued)**

**4. EQUITY IN POOLED CASH AND INVESTMENTS (Continued)**

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.

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** - The carrying amount of deposits was \$278,101 and \$290,930 as of December 31, 2003 and 2002, respectively. The bank balances as of December 31, 2003 and 2002 were \$296,446 and \$307,467, respectively and \$100,000 of each of the bank balances were covered by federal depository insurance. The remaining balances were collateralized by third party trustees in single institution collateral pools, securing all public funds on deposit with specific depository institutions. Although the securities servicing as collateral were held by the pledging institution in the pledging institution's name and all State statutory requirements for the deposit of money had been followed, noncompliance with federal requirements would potentially subject the District to a successful claim by the FDIC. In addition, \$200 was carried in a petty cash fund for both fiscal years ended.

**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 invested in the State Treasury Asset Reserve of Ohio (STAR Ohio) during fiscal years 2003 and 2002. 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, 2003 and 2002.

The classification of equity in pooled cash and cash equivalents and investments on the financial statements is based on criteria set forth in GASB Statement No. 9. Cash and cash equivalents are defined to include investments included within the District's cash management pool and investments with a maturity date of three months or less.

The District's investments in Star Ohio, an investment pool operated by the Ohio State Treasurer, are unclassified investments since they are not evidenced by securities that exist in physical or book entry form. The carrying amounts and fair values of Star Ohio investments were \$1,121,923 and \$976,151 as of December 31, 2003 and 2002, respectively.

There is no reconciliation necessary between the classifications of cash and investments on the financial statements and the classification per GASB Statement No. 3.

**ALLEN WATER DISTRICT  
ALLEN COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002  
(Continued)**

**5. BUDGETARY ACTIVITY**

Budgetary activity for the years ending December 31, 2003 and 2002 follows:

| <b>Fund Type</b>  | <b>Budgeted vs. Actual Receipts</b> |             |
|-------------------|-------------------------------------|-------------|
|                   | <b>2003</b>                         | <b>2002</b> |
| Budgeted Receipts | \$3,136,811                         | \$1,363,715 |
| Actual Receipts   | 1,370,108                           | 888,343     |
| Variance          | \$(1,766,703)                       | \$(475,372) |

| <b>Fund Type</b>        | <b>Budgeted vs. Actual Budgetary Basis Expenditures</b> |             |
|-------------------------|---|-------------|
|                         | <b>2003</b>   | <b>2002</b> |
| Appropriation Authority | \$3,165,542   | \$1,507,567 |
| Budgetary Expenditures  | 1,071,428   | 1,085,676   |
| Variance                | \$2,094,114   | \$421,891   |

**6. ACCOUNTS RECEIVABLE**

The accounts receivable balance of \$37,105 at December 31, 2003 (\$32,650 at December 31, 2002) is current (due 0-30 days). Assessment receivables of \$6,186,866 at December 31, 2003 (\$5,976,638 at December 31, 2002) 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.

**7. DISTRICT AND CONTRACT FEES**

District customers, as outside the city users, 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.

**8. 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.

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 bonds, 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 percent, 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.



**ALLEN WATER DISTRICT  
ALLEN COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002  
(Continued)**

**9. CONTRIBUTED CAPITAL**

Following is a description of the components of contributed capital:

|  |                       |           |                            |
|--|-----------------------|-----------|----------------------------|
| -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 | 2001      | 1,818                      |
| Assessments<br>(prepaid and certified) | All Projects          | Various   | 9,016,332                  |
| Developer                              | Various               | Various   | <u>1,242,625</u>           |
| Total                                  |                       |           | <u><u>\$10,759,452</u></u> |

Contributed capital from donated developer lines 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 the District 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. The District implemented GASB Statement No. 33 during fiscal year 2001. All donated developer lines for 2003 and 2002 were recorded as capital contributions – donated lines in the Statement of Revenues, Expenses and Changes in Accumulated Deficit.

**ALLEN WATER DISTRICT  
ALLEN COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002  
(Continued)**

**10. PROPERTY, PLANT AND EQUIPMENT**

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

|                                | <b>2003</b>         | <b>2002</b>         |
|--------------------------------|---------------------|---------------------|
| Land easement                  | \$7,186             | \$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                      | 1,759,880           | 1,759,880           |
| Buckeye Road                   | 317,070             | 317,070             |
| Shagbark and Snowberry         | 153,781             | 153,781             |
| Springbrook                    | 883,148             | 883,148             |
| East Breeze                    | 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                        | 98,364              | 98,364              |
| Linfield                       | 79,094              | 79,094              |
| Fetter                         | 216,663             | 216,663             |
| Stewart                        | 202,941             | 202,941             |
| Dixie North - King             | 149,768             | 149,768             |
| Sweger-Fraunfelder             | 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                      | 400,705             | -                   |
| Cotner/Wapak                   | 231,657             | -                   |
| Developer Donated Lines        | 1,435,271           | 1,427,383           |
| Office furniture and equipment | 22,859              | 22,859              |
|                                | 12,750,934          | 12,110,534          |
| Less accumulated depreciation  | (1,902,672)         | (1,653,384)         |
|                                | <b>\$10,848,262</b> | <b>\$10,457,150</b> |

**ALLEN WATER DISTRICT  
ALLEN COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002  
(Continued)**

**11. 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 Rotary Commission.

| <u>Loan</u>                              | <u>Interest Rate</u> | <u>First Payment</u> | <u>Term</u> | <u>Accrued</u>              |                              |                                 |
|--|----------------------|----------------------|-------------|-----------------------------|------------------------------|---------------------------------|
|  |                      |                      |             | <u>Interest Due in 2004</u> | <u>Principal Due in 2004</u> | <u>Principal Due after 2004</u> |
| Elm/ Copus Project                       | 7.45%                | 1/1/1993             | 25 yrs.     | \$452                       | \$554                        | \$12,354                        |
| Elm/ Copus Project                       | 7.56%                | 1/1/1993             | 25 yrs.     | 9,395                       | 11,439                       | 256,996                         |
| Shawnee Project                          | 7.54%                | 1/1/1994             | 25 yrs.     | 46,625                      | 50,848                       | 1,281,299                       |
| McDonel Project                          | 7.24%                | 1/1/1994             | 25 yrs.     | 26,891                      | 30,015                       | 738,311                         |
| Hawthorne Project                        | 7.21%                | 1/1/1994             | 25 yrs.     | 6,643                       | 7,431                        | 182,364                         |
| Allentown Project                        | 6.85%                | 1/1/1995             | 25 yrs.     | 46,917                      | 49,735                       | 1,320,101                       |
| Allentown Project                        | 6.24%                | 7/1/1995             | 25 yrs.     | 5,237                       | 6,006                        | 158,923                         |
| State Route 309 Project                  | 6.51%                | 1/1/1995             | 25 yrs.     | 4,415                       | 5,065                        | 130,571                         |
| Buckeye Project                          | 5.90%                | 1/1/1995             | 25 yrs.     | 6,994                       | 9,312                        | 227,787                         |
| Shagbark/Snowberry Project               | 6.72%                | 1/1/1996             | 25 yrs.     | 4,275                       | 4,231                        | 123,016                         |
| Springbrook Project                      | 6.72%                | 1/1/1996             | 25 yrs.     | 20,444                      | 18,383                       | 590,063                         |
| East Breese Project                      | 5.94%                | 7/1/1998             | 25 yrs.     | 4,180                       | 3,965                        | 134,861                         |
| Greely Chapel Project                    | 6.32%                | 7/1/1999             | 25 yrs.     | 3,180                       | 2,504                        | 96,918                          |
| Woodbriar/Metzger Project                | 5.66%                | 7/1/1999             | 25 yrs.     | 15,487                      | 14,633                       | 525,483                         |
| Stewart/Fetter/Linfield Project          | 5.54%                | 1/1/2000             | 25 yrs.     | 10,905                      | 10,372                       | 383,307                         |
| Dixie Highway North/King Project         | 5.77%                | 7/1/2001             | 25 yrs.     | 3,678                       | 2,874                        | 124,616                         |
| Eastown Project                          | 6.13%                | 7/1/2001             | 25 yrs.     | 5,116                       | 3,594                        | 163,318                         |
| Sweger/Fraunfelter Project               | 6.13%                | 7/1/2001             | 25 yrs.     | 4,940                       | 3,471                        | 157,718                         |
| Diller/Easton/Franks Colony              | 6.41%                | 7/1/2001             | 25 yrs.     | 19,600                      | 12,702                       | 598,842                         |
| Dixie Highway Phase #3 Project           | 6.39%                | 7/1/2001             | 25 yrs.     | 2,350                       | 1,532                        | 72,035                          |
| Bath Loop Project                        | 4.28%                | 1/1/2004             | 25 yrs.     | 5,136                       | 166,306                      | 234,485                         |
| Cotner/Wapak Project                     | 4.28%                | 1/1/2004             | 25 yrs.     | 4,066                       | 46,887                       | 185,634                         |
| *Shawnee Agriculture Deferred            | 0.00%                | NA                   | 20 yrs.     | -                           | -                            | 23,441                          |
| *Allentown Agriculture Deferred          | 0.00%                | NA                   | 20 yrs.     | -                           | -                            | 116,052                         |
| *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                          |
| *Sweger/Fraunfelter Agriculture Deferred | 0.00%                | NA                   | 20 yrs.     | -                           | -                            | 41,591                          |
|  |                      |                      |             | <u>\$256,926</u>            | <u>\$461,859</u>             | <u>\$7,974,337</u>              |

**Ohio Water and Sewer Rotary Commission** - The District has obtained six 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, 2003 AND 2002  
(Continued)**

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

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

|   | <u>2004</u>      | <u>2005</u>      | <u>2006</u>      | <u>2007</u>      | <u>2008</u>      | <u>2009<br/>and after</u> |
|---|------------------|------------------|------------------|------------------|------------------|---------------------------|
| Elm/ Copus Project                      | \$1,516          | \$1,516          | \$1,516          | \$1,516          | \$1,516          | \$13,644                  |
| Elm/ Copus Project                      | 31,733           | 31,733           | 31,733           | 31,733           | 31,733           | 285,594                   |
| Shawnee Project                         | 151,292          | 151,292          | 151,292          | 151,292          | 151,292          | 1,512,919                 |
| McDonel Project                         | 85,641           | 85,641           | 85,641           | 85,641           | 85,641           | 856,415                   |
| Hawthorne Project                       | 21,116           | 21,116           | 21,116           | 21,116           | 21,116           | 211,157                   |
| Allentown Project                       | 143,569          | 143,569          | 143,569          | 143,569          | 143,569          | 1,579,259                 |
| Allentown Project                       | 16,297           | 16,297           | 16,297           | 16,297           | 16,297           | 187,420                   |
| State Route 309 Project                 | 13,895           | 13,895           | 13,895           | 13,895           | 13,895           | 152,849                   |
| Buckeye Project                         | 23,301           | 23,301           | 23,301           | 23,301           | 23,301           | 256,307                   |
| Shagbark/Snowberry Project              | 12,782           | 12,782           | 12,782           | 12,782           | 12,782           | 153,379                   |
| Springbrook Project                     | 59,270           | 59,270           | 59,270           | 59,270           | 59,270           | 770,511                   |
| East Breese Project                     | 12,212           | 12,212           | 12,212           | 12,212           | 12,212           | 177,068                   |
| Greely Chapel Project                   | 8,788            | 8,788            | 8,788            | 8,788            | 8,788            | 136,209                   |
| Woodbriar/Metzger Project               | 45,204           | 45,204           | 45,204           | 45,204           | 45,204           | 700,657                   |
| Stewart/Fetter/Linfield Project         | 32,182           | 32,182           | 32,182           | 32,182           | 32,182           | 514,906                   |
| Dixie Highway North/King Project        | 10,190           | 10,190           | 10,190           | 10,190           | 10,190           | 178,318                   |
| Eastown Project                         | 13,771           | 13,771           | 13,771           | 13,771           | 13,771           | 241,001                   |
| Sweger/Fraunfelter Project              | 13,299           | 13,299           | 13,299           | 13,299           | 13,299           | 232,737                   |
| Diller/Easton/Franks Colony             | 51,702           | 51,702           | 51,702           | 51,702           | 51,702           | 904,781                   |
| Dixie Highway Phase #3 Project          | 6,209            | 6,209            | 6,209            | 6,209            | 6,209            | 108,654                   |
| Bath Loop Project                       | 15,728           | 15,728           | 15,728           | 15,728           | 15,728           | 393,203                   |
| Cotner/Wapak Project                    | 12,451           | 12,451           | 12,451           | 12,451           | 12,451           | 311,286                   |
| Shawnee Agriculture Deferred            | -                | -                | -                | -                | -                | 23,441                    |
| Allentown Agriculture Deferred          | -                | -                | -                | -                | -                | 116,052                   |
| Dutch Hollow Agriculture Deferred       | -                | -                | -                | -                | -                | 28,217                    |
| Springbrook Agriculture Deferred        | -                | -                | -                | -                | -                | 29,174                    |
| East Breese Agriculture Deferred        | -                | -                | -                | -                | -                | 36,860                    |
| Sweger/Fraunfelter Agriculture Deferred | -                | -                | -                | -                | -                | 41,591                    |
|   | <u>\$782,148</u> | <u>\$782,148</u> | <u>\$782,148</u> | <u>\$782,148</u> | <u>\$782,148</u> | <u>\$10,153,609</u>       |

**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 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 to the projects from which the money was borrowed.

**ALLEN WATER DISTRICT  
ALLEN COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002  
(Continued)**

**12. DEFINED BENEFIT RETIREMENT PLAN**

- A.** The Public Employees Retirement Systems of Ohio (PERS) 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 percent 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 thereon.
  - 3) The Combined Plan (CO) – a cost-sharing multiple-employer defined benefit pension plan. Under the Combined Plan employer contributions are invested by the retirement system to provide a formula retirement benefit similar in nature to the Traditional Plan benefit. Member contributions, the investment of which is self-directed by the members, accumulate retirement assets in a manner similar to the Member-Directed Plan.
- B.** PERS provides retirement, disability, survivor and death benefits and annual cost of living adjustments to members of the Traditional Plan and Combined Plan. Members of the Member-Directed Plan do not qualify for ancillary benefits.
- C.** Authority to establish and amend benefits is provided by state statute per Chapter 145 of the Ohio Revised Code.
- D.** 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) 222-6705 or 1-800-222-7377.
- E.** The Ohio Revised Code provides statutory authority for employee and employer contributions. The employee contribution rates were 8.5 percent for employees for 2003 for all three plans (TP, MD, and CO) and for 2002. The 2003 (for all three plans) and 2002 employer contribution rates for local government employer units were 13.55 percent of covered payroll for both years.

The District's contributions to PERS for the years ended December 31, 2003, 2002, and 2001, were \$5,163, \$4,591, and \$3,910, respectively.

**13. POST-EMPLOYMENT BENEFITS**

- A.** Public Employees Retirement of Ohio (PERS) 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.

PERS provides retirement, disability, survivor and post-retirement health care benefits to qualifying members of both the Traditional and the Combined Plans; however, health care benefits are not statutorily guaranteed. Members of the Member-Directed Plan do not qualify for ancillary benefits, including post-employment health care coverage.

**ALLEN WATER DISTRICT  
ALLEN COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002  
(Continued)**

**13. POST-EMPLOYMENT BENEFITS (Continued)**

In order to qualify for post-retirement health care coverage, age and service retirees must have 10 or more years of qualifying Ohio service credit. Health care coverage for disability recipients and primary survivor recipients is available. The health care coverage provided by the retirement system is considered an Other 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 percent of covered payroll for both fiscal years 2003 and 2002 and 5.0 percent was the portion used to fund health care for the years 2003 and 2002, respectively.

**B.** The Ohio Revised Code provides the statutory authority requiring public employers to fund postretirement health care through their contributions to PERS.

**C.** Summary of Assumptions:

Actuarial Review - The assumptions and calculations below were based on the System's latest Actuarial Reviews performed as of December 31, 2002 and 2001.

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 percent of unrealized market appreciation or depreciation on investment assets.

Investment Return – The investment assumption rate for 2002 and 2001 was 8.0 percent.

Active Employee Total Payroll – An annual increase of 4.0 percent for 2002 and 2001 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 4.0 percent base increases, were assumed to range from .50 percent to 6.3 percent for 2002 and 2001.

Health Care – Health care cost were assumed to increase 4.0 percent annually for 2002 and 2001.

**D.** The rates stated in A are the actuarially determined contribution requirements for PERS. OPEBs are advance-funded on an actuarially determined basis. The following disclosures are required:

1. The number of active contributing participants was 364,881 for 2003 and 402,041 for 2002.
2. The employer contributions that were used to fund postemployment benefits were \$1,905 for 2003 and \$1,241 for 2002.
3. \$10.0 billion and \$11.6 billion represent the actuarial value of the Retirement System's net assets available for OPEB at December 31, 2002 and 2001.
4. The actuarially accrued liability and the unfunded actuarial accrued liability, based on the actuarial cost method used, were \$18.7 billion and \$8.7 billion for 2002 and \$14.4 billion and \$2.6 billion for 2001, respectively.

**ALLEN WATER DISTRICT  
ALLEN COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002  
(Continued)**

**14. CONTINGENT LIABILITIES**

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

**Pending or Threatened Litigation** – During the period ended December 31, 2003 and December 31, 2002, the Allen Water District had no pending contingent liability 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 a water system. No claim against these contractual obligations has been made or is anticipated that would result in an unfavorable outcome to the Allen Water 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 Allen Water District.

**15. 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 years 2003 and 2002.

**16. PRIOR PERIOD ADJUSTMENT**

The financial statements for 2001 have been restated to correct an error in calculation of special assessments receivable. The effect of the restatement was to reduce the accumulated deficit from \$1,447,754 to \$1,371,742 as of January 1, 2002.

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**Auditor of State  
Betty Montgomery**

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

Allen Water District  
Allen County  
2609 West Breese Road  
P. O. Box 724  
Lima, Ohio 45802

To the Members of the Board:

We have audited the financial statements of the Allen Water District, Allen County, (the District), as of and for the years ended December 31, 2003 and 2002, and have issued our report thereon dated June 15, 2004. 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 no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

**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 certain 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 June 15, 2004.

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

A handwritten signature in black ink that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

**Betty Montgomery**  
Auditor of State

June 15, 2004

ALLEN WATER DISTRICT  
ALLEN COUNTY

SCHEDULE OF PRIOR AUDIT FINDINGS  
DECEMBER 31, 2001 AND 2000

| <b>Finding Number</b> | <b>Finding Summary</b>   | <b>Fully Corrected?</b> | <b>Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain:</i></b> |
|-----------------------|--|-------------------------|---|
| 2001-001              | Lack of prior certification in accordance with ORC 5705.41 (D) | Yes                     | The District attaches a "then and now" certificate to all vouchers.   |





**Auditor of State  
Betty Montgomery**

88 East Broad Street  
P.O. Box 1140  
Columbus, Ohio 43216-1140

Telephone 614-466-4514  
800-282-0370

Facsimile 614-466-4490

**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  
JULY 20, 2004**