

**LE-AX WATER DISTRICT  
ATHENS COUNTY  
Regular Audit  
For the Years Ended December 31, 2006 and 2005**





# Mary Taylor, CPA

Auditor of State

Board of Trustees  
Le-Ax Water District  
6000 Industrial Drive  
P.O. Box 97  
The Plains, Ohio 45780

We have reviewed the *Independent Accountants' Report* of the Le-Ax Water District, Athens County, prepared by Perry & Associates, Certified Public Accountants, A.C., for the audit period January 1, 2005 through December 31, 2006. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

*Mary Taylor*

Mary Taylor, CPA  
Auditor of State

February 11, 2008

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**LE-AX WATER DISTRICT  
ATHENS COUNTY**

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***Perry & Associates***  
Certified Public Accountants, A.C.

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**INDEPENDENT ACCOUNTANTS' REPORT**

December 21, 2007

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

To the Board of Trustees:

We have audited the accompanying financial statements of the business-type activities of the Le-Ax Water District (the District), Athens County, as of and for the years ended December 31, 2006 and 2005, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. 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 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 financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the District, as of December 31, 2006 and 2005, and the respective changes in financial position and cash flows thereof, for the years then ended in conformity with accounting principles generally accepted in the United States of America.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated December 21, 2007 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 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 of the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Le-Ax Water District  
Independent Accountant's Report  
Page 2

As described in Note 9, the District has implemented Governmental Accounting Standards Board (GASB) Statement No. 40, *Deposits and Investments Risk Disclosures*, Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, Statement No. 46, *Net Assets Restricted by Enabling Legislation*, and GASB Statement No. 47, *Accounting for Termination Benefits*.

Respectfully Submitted,

**Perry and Associates**  
Certified Public Accountants, A.C.

**LE-AX WATER DISTRICT  
ATHENS COUNTY**

**STATEMENT OF NET ASSETS  
AS OF DECEMBER 31, 2006 AND 2005**

	<b>2006</b>	<b>2005</b>
<b>ASSETS:</b>		
Current Assets:		
Cash and Cash Equivalents	\$ 27,398	\$ 57,463
Investments	2,621,684	2,397,044
Accounts Receivable	287,142	246,671
Inventories	112,589	189,750
Prepaid Expenses	26,046	33,668
Total Current Assets	3,074,859	2,924,596
Noncurrent Assets:		
Capital Assets (net of accumulated depreciation)	16,630,534	16,585,465
Organizational Expense (net of accumulated amortization)	26,557	30,760
Total Noncurrent Assets	16,657,091	16,616,225
<b>TOTAL ASSETS</b>	<b>\$ 19,731,950</b>	<b>\$ 19,540,821</b>
<b>LIABILITIES AND EQUITY:</b>		
Current Liabilities:		
Accounts Payable	\$ 35,884	\$ 20,303
Accrued Wages and Compensated Leave	127,229	110,855
Accrued Payroll Deductions	41,042	25,095
Accrued Interest Payable	310,662	311,934
Current Portion of Long-Term Debt	170,289	149,677
Total Current Liabilities	685,106	617,864
Long-Term Liabilities:		
Long-term Notes Payable	8,235,439	8,405,728
Total Long-Term Liabilities	8,235,439	8,405,728
<b>TOTAL LIABILITIES</b>	<b>\$ 8,920,545</b>	<b>\$ 9,023,592</b>
Net Assets:		
Invested in Capital Assets, Net of Related Debt	8,224,806	8,030,060
Restricted Net Assets	659,214	526,024
Unrestricted Net Assets	1,927,385	1,961,145
Total Net Assets	10,811,405	10,517,229
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 19,731,950</b>	<b>\$ 19,540,821</b>

The notes to the financial statements are an integral part of this statement



**LE-AX WATER DISTRICT  
ATHENS COUNTY**

**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS  
FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005**

	<b>2006</b>	<b>2005</b>
<b>Operating Revenues:</b>		
Water Sales	\$ 2,689,129	\$ 2,615,287
Tap Sales	130,556	112,900
Reimbursement Income	483,454	45,061
Miscellaneous Income	45,102	36,966
 Total Operating Revenues	 3,348,241	 2,810,214
<b>Operating Expenses:</b>		
Plant Expense	170,632	142,171
Office Expenses	134,188	148,576
Employee Expense	1,162,967	978,884
Professional Fees	83,723	60,749
Utilities	213,778	190,032
Repairs and Maintenance	299,203	282,644
Vehicle Expense	43,606	30,633
Depreciation and Amortization	656,156	624,526
Miscellaneous	18,896	20,929
 Total Operating Expenses	 2,783,149	 2,479,144
 Operating Income	 565,092	 331,070
<b>Nonoperating Revenues/(Expenses):</b>		
Interest Income	86,613	48,606
Sale of Fixed Assets	-	4,135
Principal Payments	(149,677)	(144,588)
Interest Expense	(207,852)	(199,643)
 Total Non-operating Revenues/(Expenses)	 (270,916)	 (291,490)
 Change in Net Assets	 294,176	 39,580
 Net Assets - January 1 (See Note 8)	 10,517,229	 10,477,649
 <b>Net Assets - December 31</b>	 <b>\$ 10,811,405</b>	 <b>\$ 10,517,229</b>

The notes to the financial statements are an integral part of this statement

**LE-AX WATER DISTRICT  
ATHENS COUNTY**

**STATEMENT OF CASH FLOWS  
FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005**

	<u>2006</u>	<u>2005</u>
<b>Cash Flows from Operating Activities:</b>		
Cash Received from Water Sales and Tap Fees	\$ 2,863,997	\$ 2,727,548
Cash Received from Reimbursement and Miscellaneous Income	528,556	82,027
Cash Payments to Suppliers for Goods and Services	(948,445)	(889,464)
Cash Payments to Employees for Services	<u>(1,108,306)</u>	<u>(988,095)</u>
Net Cash Provided by (Used by) Operations	<u>1,335,802</u>	<u>932,016</u>
<b>Cash Flows from Capital and Related Financing Activities:</b>		
Acquisition and Construction of Capital Assets	(697,024)	(721,805)
Proceeds from Disposal of Fixed Assets	-	4,135
Principal Paid on Long-Term Debt	(149,677)	(144,588)
Interest Paid	<u>(209,124)</u>	<u>(159,666)</u>
Net Cash Provided by (Used by) Capital and Related Financing Activities	<u>(1,055,825)</u>	<u>(1,021,924)</u>
<b>Cash Flows from Investing Activities:</b>		
Interest Received	86,613	48,606
Proceeds from Sale of Investments	99,455	89,546
Investment Purchase	<u>(496,110)</u>	<u>(37,430)</u>
Net Cash Provided by (Used by) Investing Activities	<u>(310,042)</u>	<u>100,722</u>
Net Increase/(Decrease) in Cash and Cash Equivalents	(30,065)	10,814
Cash and Cash Equivalents - January 1	<u>57,463</u>	<u>46,649</u>
<b>Cash and Cash Equivalents - December 31</b>	<b><u>27,398</u></b>	<b><u>57,463</u></b>
<b>Cash Flows from Operating Activities:</b>		
Operating Income	565,092	331,070
<b>Adjustments to Reconcile Operating Income to Cash Flows from Operating Activities</b>		
Depreciation	656,156	624,526
(Increase) Decrease in Accounts Receivable	(40,471)	(110)
(Increase) Decrease in Inventory	77,161	(43,047)
(Increase) Decrease in Prepaid Assets	10,622	(2,519)
Increase (Decrease) in Accounts Payable	15,581	(13,730)
Increase (Decrease) in Interest Payable	(1,272)	39,977
Increase (Decrease) in Payroll related Liabilities	32,321	(9,241)
Increase (Decrease) in Current Portion of Long-Term Payables	<u>20,612</u>	<u>5,090</u>
Total Adjustments	<u>770,710</u>	<u>600,946</u>
Net Cash Provided by (Used by) Operating Activities	<b><u>\$ 1,335,802</u></b>	<b><u>\$ 932,016</u></b>

The notes to the financial statements are an integral part of this statement

**Le-Ax Water District  
Athens County**

**Notes to Financial Statements  
For the Year's Ended December 31, 2006 and 2005**

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. DESCRIPTION OF THE ENTITY**

The Le-Ax Water District is a water district organized under the provisions of Section 6119 of the Ohio Revised Code by the Common Pleas Court of Athens County in August of 1981. The District has exercised its authority to issue revenue bonds and notes, which are payable from the revenues of the District, to finance the cost of projects that benefit the District and its customers. The District is also authorized to levy taxes for the current expenses of the District or for the issuance of bonds upon approval of a majority of the electorate. The District may also assess real estate for certain improvements and issue bonds in anticipation of the collection of such special assessments. The District has not exercised these taxing powers. The District operates under the direction of a five-member board of trustees. An appointed staff consisting of a general manager, superintendent, and three office clerks are responsible for fiscal control of the resources of the District. The District was established to provide an adequate and uncontaminated water supply for the consumption of the water district users and for industrial and business use. The District serves all or parts of the following political subdivisions:

<u>Athens County</u>	<u>Meigs County</u>	<u>Vinton County</u>
Alexander Township	Columbiana Township	Knox Township
Athens Township	Scipio Township	Brown Township
Canaan Township	Bedford Township	
Lee Township		<u>Hocking County</u>
Waterloo Township		
York Township		Starr Township
Village of Albany		Green Township

The financial reporting entity, as described by Governmental Accounting Standards Board Statement No. 14, is the "primary government." A fundamental characteristic of a primary government is that it is a fiscally independent entity. In evaluating how to define the financial reporting entity, management has considered all potential component units. A component unit is a legally separate entity for which the primary government is financially accountable. The criteria of financial accountability are the ability of the primary government to impose its will upon the potential component unit. These criteria were considered in determining the reporting entity. The District does not have financial accountability over any entities; i.e. there are no component units. Furthermore, as a political subdivision, the District is distinct from, and is not an agency of, the State of Ohio or any other local government unit. The District is not subject to federal, state, or local income taxes.

**B. BASIS OF ACCOUNTING**

The accompanying financial statements were prepared on the accrual basis of accounting, whereby revenues and expenses are recognized in the period earned or incurred. In accordance with GASB Statement No. 34, "Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments," the District applies all GASB pronouncements and all FASB Statements and Interpretations, Accounting Principles Board of Opinions and Accounting Research Bulletins issued after November 30, 1989, unless they conflict with GASB pronouncements.

**Le-Ax Water District  
Athens County**

**Notes to Financial Statements  
For the Year's Ended December 31, 2006 and 2005**

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**C. BUDGETARY PROCESS**

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

**D. CASH & CASH EQUIVALENTS**

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

**E. ACCOUNTS RECEIVABLE**

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

**F. INVENTORY**

The inventory of the District consists of expendable materials and supplies. Inventory is valued at cost, which approximates market, utilizing the first in, first out (FIFO) method. The cost is expensed at the time individual inventory items are consumed, if they are used for repairs and/or maintenance. The cost is capitalized if the inventory items are used to install taps for new water users or otherwise expand the system.

**G. PREPAID EXPENSES**

Payments made to vendors for services that will benefit periods beyond the applicable fiscal year ended December 31, 2006 and 2005 are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expense is reported in the period in which those services are consumed.

**H. CAPITAL ASSETS**

Capital assets acquired or constructed for the general use of the District in providing service are recorded at cost. Donated assets are recorded at their estimated fair market value at the time received. Capital assets are defined as assets with an initial, individual cost of more than \$1,000 and an estimated useful life in excess of three years. Depreciation of capital assets of the District is calculated utilizing the straight-line method. All assets reported in the financial statements are at cost less accumulated depreciation.

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

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

**Le-Ax Water District  
Athens County**

**Notes to Financial Statements  
For the Year's Ended December 31, 2006 and 2005**

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**I. COMPENSATED ABSENCES**

In accordance with GASB Statement No. 16, Accounting for Compensated Absences, the District records a liability for accumulated unpaid sick, vacation, and compensatory time benefits when earned by employees. Employees earn vacation time at varying rates depending on the duration of their employment. Beginning at the time of employment, employees become vested in accumulated unpaid vacation time. Ohio law requires that vacation time not be accumulated for more than three years. Unused vacation time is payable upon termination of employment. Unused sick leave may be accumulated until retirement. Employees are entitled to payment for accumulated sick leave credit upon retirement. Payment may be made up to a maximum of 25% of accrued sick leave or 240 hours, whichever, is less. Employees may elect compensatory time off in lieu of overtime pay when overtime hours are worked. Upon termination of employment or retirement, employees are entitled to payment for unused compensatory time.

All vacation, sick leave and compensatory time benefits are compensated at the employee's current wage rate at the time of retirement or termination. All unpaid vacation time is accrued as a liability subject to the limits stated above. Unpaid sick leave is accrued as stated above for those employees eligible for retirement plus those who are likely to retire from the District.

**J. REVENUES AND EXPENSES**

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

**K. CONTRIBUTED CAPITAL**

Contributed capital represents resources from other governments and private sources provided to proprietary funds that are not subject to repayment. Many of these are water line extensions that are constructed by other parties (with the inspection and approval of the District) and then turned over to the District. These assets are recorded at their fair market value on the date donated with an offsetting amount credited to Capital Contributions.

Depreciation on those assets acquired or constructed with contributed resources is expensed and closed to unreserved retained earnings at year-end. Contributed capital of the District has been in the form of donated assets and receipts from customers and developers as well as various federal and/or state grants.

**L. ESTIMATES**

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

**Le-Ax Water District  
Athens County**

**Notes to Financial Statements  
For the Year's Ended December 31, 2006 and 2005**

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**M. NET ASSETS**

Net assets represent the differences between assets and liabilities. Net Assets Invested in Capital Assets, Net of Related Debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Restricted net assets consist of monies and other resources which are restricted to satisfy debt service requirements as specified in debt agreements.

**N. RESTRICTED ASSETS**

Cash, cash equivalents and investments are reported as restricted when limitations on their use change the nature or normal understanding of their use. Such constraints are either imposed by creditors, contributors, grantors, or laws of other governments, or imposed by law through constitutional provisions or enabling legislation. Restricted assets represent certain resources, which are segregated from other resources of the District's to comply with various covenants established by debt financing agreements.

**NOTE 2 – DEPOSITS AND INVESTMENTS**

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

Active deposits are public deposits necessary to meet current demands on the treasury. Such monies must be maintained either as cash in the District Treasury, in commercial accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

Inactive deposits are public deposits that the District 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 deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit, or by savings or deposit accounts including passbook accounts.

Interim monies held by the District 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 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;

**Le-Ax Water District  
Athens County**

**Notes to Financial Statements  
For the Year's Ended December 31, 2006 and 2005**

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**NOTE 2 – DEPOSITS AND INVESTMENTS (Continued)**

3. Written repurchase agreements in the securities listed above provided the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least 2 percent and be marked to market daily, and the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio or Ohio local governments;
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 division (1) or (2) 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 (STAROhio); and,
8. Commercial paper and bankers acceptances if training requirements have been met.

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 may only be made through specified dealers and institutions. An investment must mature within five years from the date of purchase, unless matched to a specific obligation or debt of the Village, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions.

***Undeposited Cash*** At year-end 2006 and 2005, the District had \$175 in undeposited cash on hand, included as part of *Cash and cash equivalents*.

***Deposits*** At year-end 2006 and 2005, the carrying amount of the District's deposits was \$27,223 and \$57,288 and the bank balance was \$44,081 and \$82,625, respectively. Custodial credit risk for deposits is the risk that in the event of bank failure, the District will not be able to recover deposits or collateral securities that are in the possession of an outside party. As of December 31, 2006 and 2005, all of the bank balance was covered by federal depository insurance.

***Investments*** As of December 31, 2006 and 2005, the District had Certificates of Deposits with carrying values of \$2,621,684 and \$2,397,044, respectively.

The District's investment policy does not address any restriction on investments relating to interest rate, credit, or custodial credit risks. The investment policy restricts investment in anything other than as identified in the Ohio Revised Code, except that all investments must mature within two years from the date of investments unless they are matched to a specific obligation or debt of the District. Purchasing investments that cannot be held until the maturity date is also restricted.

**Le-Ax Water District  
Athens County**

**Notes to Financial Statements  
For the Year's Ended December 31, 2006 and 2005**

**NOTE 3 - CAPITAL ASSETS**

Changes in capital assets for the years ended December 31, 2006 and 2005 consisted of the following:

	12/31/2004		12/31/2005		12/31/2006		
	Balance	Additions	Deletions	Balance	Additions	Deletions	Balance
<b>Capital assets non-depreciable:</b>							
Land	\$ 64,829	\$ 24,500	\$ -	\$ 89,329	\$ 134,685	\$ -	\$ 224,014
Easements	11,041	1,000	-	12,041	-	-	12,041
Construction in progress	3,014,750	88,789	2,751,385	352,154	439,134	-	791,288
Total non-depreciable capital assets	3,090,620	114,289	2,751,385	453,524	573,819	-	1,027,343
<b>Capital assets being depreciated:</b>							
Water Plant and Buildings	4,604,878	15,700	-	4,620,578	42,491	-	4,663,069
Water Lines, Tanks, Wells	13,454,984	3,182,510	-	16,637,494	8,175	-	16,645,669
Roads, Parking Area, Fencing	47,851	5,035	-	52,886	15,950	-	68,836
Water Meters and installation	911,426	100,074	-	1,011,500	28,443	-	1,039,943
Miscellaneous Equipment	709,570	55,582	12,814	752,338	25,221	2,600	774,959
Office Equipment	230,325	-	-	230,325	2,925	-	233,250
Total capital assets being depreciated	19,959,034	3,358,901	12,814	23,305,121	123,205	2,600	23,425,726
<b>Less accumulated depreciation:</b>							
Water Plant and Buildings	853,984	118,250	-	972,234	119,279	-	1,091,513
Water Lines, Tanks, Wells	4,369,335	376,132	-	4,745,467	415,992	-	5,161,459
Roads, Parking Area, Fencing	26,729	4,111	-	30,840	5,685	-	36,525
Water Meters and Installation	589,261	31,464	-	620,725	33,676	-	654,401
Miscellaneous Equipment	544,385	68,553	12,814	600,124	62,023	2,600	659,547
Office Equipment	181,977	21,813	-	203,790	15,300	-	219,090
Total accumulated depreciation	6,565,671	620,323	12,814	7,173,180	651,955	2,600	7,822,535
Capital assets, net of depreciation	<u>\$ 16,483,983</u>	<u>\$ 2,852,867</u>	<u>\$ 2,751,385</u>	<u>\$ 16,585,465</u>	<u>\$ 45,069</u>	<u>\$ -</u>	<u>\$ 16,630,534</u>

**NOTE 4 - DEBT OBLIGATIONS**

Debt outstanding at December 31, 2006 and 2005, consisted of the following:

Ohio Water Development Authority (OWDA) Mortgage Revenue Bonds were issued in February 1997 for the construction of various fixed assets to provide service from the well to the distribution lines, including the operations plant and various storage facilities. Property and revenue of the District have been pledged to repay these amounts. The original balance of the obligation was \$1,200,328 accruing interest charges at 2.00% per year. The debt instrument requires semi-annual payments of \$36,704 for principal and interest retirement.



**Le-Ax Water District  
Athens County**

**Notes to Financial Statements  
For the Year's Ended December 31, 2006 and 2005**

**NOTE 4 - DEBT OBLIGATIONS (Continued)**

United States Department of Agriculture – Rural Development (USDA/RD) Revenue Bonds were issued in February 1997 for the construction of various fixed assets to provide service from the well to the distribution lines including the operation plant and various storage facilities. Revenue of the District has been pledged to repay these bonds. The original balance of the obligation was \$6,844,000 accruing interest charges at 4.50% per year. The debt instrument requires annual payments of \$375,432 for principal and interest retirement.

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

Name	Description	Principal Outstanding 12/31/04	Additions	Deductions	Principal Outstanding 12/31/05	Additions	Deductions	Principal Outstanding 12/31/06
Ohio Water Development Authority - OWDA	System Revenue Bonds 1997 - Interest Rate 2.00%	\$ 833,061	\$ -	\$ 56,747	\$ 776,314	\$ -	\$ 57,883	\$ 718,431
United States Department of Agriculture - USDA	System Revenue Bonds 1997 - Interest Rate 4.5%	6,390,932	-	87,841	6,303,091	-	91,794	6,211,297
United States Department of Agriculture - USDA	System Revenue Bonds 2005 - Interest Rate 4.25%	1,476,000	-	-	1,476,000	-	-	1,476,000
<b>TOTALS</b>		<b><u>\$ 8,699,993</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 144,588</u></b>	<b><u>\$ 8,555,405</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 149,677</u></b>	<b><u>\$ 8,405,728</u></b>

The annual requirements to amortize all bonded debt outstanding including interest as of December 31, 2006, is as follows:

**Le-Ax Water District  
Athens County**

**Notes to Financial Statements  
For the Year's Ended December 31, 2006 and 2005**

**NOTE 4 - DEBT OBLIGATIONS (Continued)**

Year Ending	OWDA	USDA 1997	USDA 2005	Total
<u>December 31</u>	<u>Revenue Bonds</u>	<u>Revenue Bonds</u>	<u>Revenue Bonds</u>	<u>Revenue Bonds</u>
2007	\$ 73,408	\$ 375,432	\$ 78,155	\$ 526,995
2008	73,409	375,432	78,155	526,996
2009	73,408	375,432	78,155	526,995
2010	73,409	375,432	78,155	526,996
2011	73,408	375,432	78,155	526,995
2012-2016	367,043	1,877,160	390,775	2,634,978
2017-2021	73,408	1,877,160	390,775	2,341,343
2022-2226	-	1,877,160	390,775	2,267,935
2227-2031	-	1,877,160	390,775	2,267,935
2032-2036	-	1,877,160	390,775	2,267,935
2037-2041	-	375,454	390,775	766,229
2042-2045	-	-	311,625	311,625
Total	\$ 807,493	\$ 11,638,414	\$ 3,047,050	\$ 15,492,957

**NOTE 5 - RISK MANAGEMENT**

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District had no settlement costs that exceeded insurance coverage during the audit period. The District does not retain any significant amount of risk and does not participate in any public entity risk pools. During the years ended December 31, 2006 and 2005, the District contracted for the following insurance coverage.

General Liability:	\$ 3,000,000
Buildings and Contents	\$10,877,595
Commercial Crime	\$ 50,000
Automobile Liability	\$ 1,000,000
Wrongful Acts Liability	\$ 1,000,000
Excess Liability	\$ 3,000,000

**NOTE 6 - PENSION PLAN**

**Ohio Public Employees Retirement System**

The District participates in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans. The traditional plan is a cost-sharing, multiple-employer defined benefit pension plan. The member-directed plan is a defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over 5 years at 20% per year). Under the member directed plan, members accumulate retirement assets equal to the value of the member and vested employer contributions plus any investment earnings.

The combined plan is a cost-sharing, multiple-employer defined benefit pension plan that has elements of both a defined benefit and a defined contribution plan. Under the combined plan, employer contributions are invested by the retirement system to provide a formula retirement benefit similar to the traditional plan benefit. Member contributions, whose investment is self-directed by the member, accumulate retirement assets in a manner similar to the member directed plan.

**Le-Ax Water District  
Athens County**

**Notes to Financial Statements  
For the Year's Ended December 31, 2006 and 2005**

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**NOTE 6 - PENSION PLAN (Continued)**

OPERS provides retirement, disability, survivor and death benefits and annual cost of living adjustments to members of the traditional and combined plans. Members of the member directed plan do not qualify for ancillary benefits. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report that may be obtained by writing to OPERS, 277 East Town Street, Columbus, OH 43215-4642 or by calling (614) 222-6705 or (800) 222-7377.

For the year ended December 31, 2006, the members of all three plans, were required to contribute 9 percent of their annual covered salaries. The 2006 employer contribution rate for District employers was 13.7 percent of covered payroll. Authority to establish and amend benefits is provided in Chapter 145 of the Ohio Revised Code.

For the year ended December 31, 2005, the members of all three plans, were required to contribute 8.5 percent of their annual covered salaries. The 2005 employer contribution rate for District employers was 13.55 percent of covered payroll. Authority to establish and amend benefits is provided in Chapter 145 of the Ohio Revised Code.

The District's required contributions for pension obligations to the traditional and combined plans for the years ended December 31, 2006, 2005, 2004, and 2003 were \$85,428, \$74,845, \$87,626, and \$81,778, respectively. The full amount has been contributed for all years.

**NOTE 7 – POSTEMPLOYMENT BENEFITS**

**Ohio Public Employees Retirement System**

The Ohio Public Employees Retirement System (OPERS) provides postretirement health care coverage to age and service retirees with ten or more years of qualifying Ohio service credit with either the traditional or combined plans.

Health care coverage for disability recipients and primary survivor recipients is available. Members of the member-directed plan do not qualify for postretirement health care coverage. The health care coverage provided by the retirement system is considered an Other Postemployment Benefit as described in *GASB Statement No. 12*. A portion of each employer's contribution to the traditional or combined plans is set aside for the funding of postretirement health care based on authority granted by State statute. The 2005 local government employer contribution rate was 13.55 percent of covered payroll; 4.00 percent of covered payroll was the portion that was used to fund health care. The 2006 local government employer contribution rate was 13.55 percent of covered payroll; 4.5 percent of covered payroll was the portion that was used to fund health care.

Benefits are advance-funded using the entry age normal actuarial cost method. Significant actuarial assumptions, based on OPERS's latest actuarial review performed as of December 31, 2004, include a rate of return on investments of 8.00 percent, an annual increase in active employee total payroll of 4.00 percent compounded annually (assuming no change in the number of active employees) and an additional increase in total payroll of between .50 percent and 6.3 percent based on additional annual pay increases. Health care premiums were assumed to increase between 1.00 and 6.00 percent annually for the next eight years and 4.00 percent annually after eight years.

**Le-Ax Water District  
Athens County**

**Notes to Financial Statements  
For the Year's Ended December 31, 2006 and 2005**

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**NOTE 7 – POSTEMPLOYMENT BENEFITS (Continued)**

All investments are carried at market. For actuarial valuation purposes, a smoothed market approach is used. Assets are adjusted to reflect 25 percent of unrealized market appreciation or depreciation on investment assets annually.

The number of active contributing participants in the traditional and combined plans was 376,106 for 2005 and figures were not yet available for 2006. Actual employer contributions for 2005 which were used to fund postemployment benefits were not yet available for 2005 or 2006. The actual contribution and the actuarially required contribution amounts are the same OPERS' net assets available for payment of benefits at December 31, 2004 (the latest information available) were \$10.8 billion. The actuarially accrued liability and the unfunded actuarial accrued liability were \$29.5 and \$18.7 billion, respectively.

On September 9, 2004, the OPERS Retirement Board adopted a Health Care Preservation Plan (HCPP) with an effective date of January 1, 2007. The HCPP restructures OPERS' health care coverage to improve the financial solvency of the fund in response to increasing health care costs. In addition to the HCPP, OPERS has taken additional action to improve the solvency of the Health Care Fund in 2005 by creating a separate investment pool for health care assets. As an additional component of the HCPP, member and employer contribution rates increased as of January 1, 2006, which will allow additional funds to be allocated to the health care plan.

**NOTE 8 – PRIOR PERIOD ADJUSTMENT**

For the year ended December 31, 2004, errors were discovered that related to fixed assets and accounts and wages payable. The effects of these changes resulted in restated net assets of \$10,477,649 at December 31, 2004.

**NOTE 9 – CHANGE IN ACCOUNTING PRINCIPLES**

For 2006, the District implemented Governmental Accounting Standards Board (GASB) Statement No. 40, *Deposits and Investments Risk Disclosures*, Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, Statement No. 46, *Net Assets Restricted by Enabling Legislation*, and GASB Statement No. 47, *Accounting for Termination Benefits*. GASB No. 40 establishes the requirement of the disclosure of certain risks related to deposits and investments. GASB Statement No. 42 establishes accounting and financial reporting standards for impairment of capital assets. GASB No. 46 requires that limitations on the use of net assets imposed by enabling legislation be reported as restricted net assets. GASB Statement No. 47 establishes accounting standards for termination benefits. The application of these new standards did not have a material effect on the financial statements, nor did their implementation require a restatement of prior year balances.

***Perry & Associates***  
**Certified Public Accountants, A.C.**

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Marietta, OH 45750  
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**INDEPENDENT ACCOUNTANTS' REPORT ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS  
REQUIRED BY *GOVERNMENT AUDITING STANDARDS***

December 21, 2007

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

To the Board of Trustees:

We have audited the financial statements of the business-type activities of the Le-Ax Water District, Athens County, (the District), as of and for the years ended December 31, 2006 and December 31, 2005, which collectively comprise the District's basic financial statements and have issued our report thereon dated December 21, 2007, wherein we noted the District implemented GASB Statements No. 40, 42, 46 and 47. 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 the Comptroller General of the United States' *Government Auditing Standards*.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our audit procedures for expressing our opinions on the financial statements, but not to opine on the effectiveness of the District's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the District's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with its applicable accounting basis, such that there is more than a remote likelihood that the District's internal control will not prevent or detect a more-than-inconsequential financial statement misstatement.

A material weakness is a significant deficiency, or combination of significant deficiencies resulting in more than a remote likelihood that the District's internal control will not prevent or detect a material financial statement misstatement.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all internal control deficiencies that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider material weaknesses, as defined above.

Le-Ax Water District  
Athens County  
Independent Accountants' Report on Internal Control Over  
Financial Reporting and on Compliance and Other Matters  
Required by *Government Auditing Standards*  
Page 2

### **Compliance and Other Matters**

As part of reasonably assuring whether the District's basic financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect 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 an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

We intend this report solely for the information and use of management and District Trustees. It is not intended for anyone other than these specified parties.

Respectfully Submitted

**Perry and Associates**  
Certified Public Accountants, A.C.



**Mary Taylor, CPA**  
Auditor of State

**LE-AX WATER DISTRICT**

**ATHENS COUNTY**

**CLERK'S CERTIFICATION**

This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
MARCH 6, 2008**