

Allen Water District

Audited Financial statements

December 31, 2011 and 2010

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Dave Yost • Auditor of State

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

We have reviewed the *Independent Auditor's Report* of the Allen Water District, Allen County, prepared by Rea & Associates, Inc., for the audit period January 1, 2010 through December 31, 2011. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

A handwritten signature in black ink that reads "Dave Yost".

Dave Yost
Auditor of State

September 21, 2012

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**ALLEN WATER DISTRICT
ALLEN COUNTY**

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June 18, 2012

Board of Trustees
Allen Water District
Lima, Ohio 45801

Independent Auditor's Report

We have audited the accompanying financial statements of the business-type activity of the Allen Water District, Allen County, Ohio, as of and for the years ended December 31, 2011 and 2010, which collectively comprise the Allen Water District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Allen Water 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 opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activity of the Allen Water District, as of December 31, 2011 and 2010, and the respective changes in financial position and the cash flows, thereof 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 18, 2012 on our consideration of the Allen Water 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 on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Allen Water District
Independent Auditor's Report

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

Rea & Associates, Inc.

**Allen Water District
Allen County, Ohio**

**Management's Discussion and Analysis
For the Years Ended December 31, 2011 and 2010**

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

FINANCIAL HIGHLIGHTS

The total assets of the District exceeded liabilities on December 31, 2011 by \$10,904,038 and on December 31, 2010 by \$11,010,336. The District's net assets decreased by \$106,298 (-1.0%) in 2011 and by \$171,408 (-1.5%) in 2010.

The District's operating revenues increased by \$26,014 (4.0%) in 2011 and by \$13,032 (2.0%) in 2010. Operating expenses decreased by \$8,104 (-1.1%) in 2011 and increased by \$37,209 (5.2%) in 2010.

The District issued no additional long term debt in 2011 or 2010.

OVERVIEW OF BASIC FINANCIAL STATEMENTS

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

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

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

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

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

**Allen Water District
Allen County, Ohio**

**Management's Discussion and Analysis
For the Years Ended December 31, 2011 and 2010**

STATEMENTS OF NET ASSETS

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

**(Table 1)
Net Assets**

	<u>2011</u>	<u>2010</u>	<u>Difference</u>	<u>2009</u>	<u>Difference</u>
Current and Other Assets	\$ 6,182,188	\$ 6,403,731	\$ (221,543)	\$ 6,678,332	\$ (274,601)
Capital Assets, Net	<u>11,698,723</u>	<u>12,015,147</u>	<u>(316,424)</u>	<u>12,329,768</u>	<u>(314,621)</u>
Total Assets	<u>17,880,911</u>	<u>18,418,878</u>	<u>(537,967)</u>	<u>19,008,100</u>	<u>(589,222)</u>
Long Term Liabilities	6,422,379	6,912,802	(490,423)	7,341,772	(428,970)
Current and Other Liabilities	<u>554,494</u>	<u>495,740</u>	<u>58,754</u>	<u>484,584</u>	<u>11,156</u>
Total Liabilities	<u>6,976,873</u>	<u>7,408,542</u>	<u>(431,669)</u>	<u>7,826,356</u>	<u>(417,814)</u>
Net Assets					
Invested in Capital Assets, Net of Related Debt	5,243,127	5,099,275	143,852	4,981,875	117,400
Unrestricted	<u>5,660,911</u>	<u>5,911,061</u>	<u>(250,150)</u>	<u>6,199,869</u>	<u>(288,808)</u>
Total Net Assets	<u>\$ 10,904,038</u>	<u>\$ 11,010,336</u>	<u>\$ (106,298)</u>	<u>\$ 11,181,744</u>	<u>\$ (171,408)</u>

The District's net assets decreased by \$106,298 (-1.0%) and \$171,408 (-1.5%) in 2011 and 2010, respectively. The decrease in 2011 is primarily the result of a decrease in assessments receivable, an increase in accumulated depreciation, and is partially offset by a decrease in long-term notes payable, and increases in cash and accounts receivable. The decrease in 2010 is primarily the result of a decrease in assessments receivable, an increase in accumulated depreciation, and is partially offset by a decrease in long-term notes payable.

Unrestricted net assets decreased \$250,150 from 2010 to 2011 and \$288,808 from 2009 to 2010. Unrestricted net assets may be used without constraints established by other legal requirements. Cash and cash equivalents increased \$55,939 from 2010 to 2011 due to cash receipts in excess of cash disbursements. Cash and cash equivalents decreased \$8,107 from 2009 to 2010 due to cash disbursements in excess of cash receipts. Assessments receivable decreased \$323,906 between 2010 and 2011 and \$273,239 between 2009 and 2010 due to collections on outstanding assessments in both years. Capital assets decreased \$316,424 between 2010 and 2011 due to depreciation expense, which was partially offset by additions. Capital assets decreased \$314,621 between 2009 and 2010 due to depreciation expense, which was partially offset by additions.

**Allen Water District
Allen County, Ohio**

**Management's Discussion and Analysis
For the Years Ended December 31, 2011 and 2010**

STATEMENTS OF CHANGES IN NET ASSETS

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

(Table 2)
Changes in Net Assets

	<u>2011</u>	<u>2010</u>	<u>Difference</u>	<u>2009</u>	<u>Difference</u>
Operating Revenues	\$ 690,634	\$ 664,620	\$ 26,014	\$ 651,588	\$ 13,032
Operating Expenses (Excluding Depreciation)	423,377	436,991	(13,614)	399,747	37,244
Depreciation	321,031	315,521	5,510	315,556	(35)
Total Operating Expenses	<u>744,408</u>	<u>752,512</u>	<u>(8,104)</u>	<u>715,303</u>	<u>37,209</u>
Operating Loss	(53,774)	(87,892)	34,118	(63,715)	(24,177)
Non-Operating Revenues	359,709	350,085	9,624	415,513	(65,428)
Non-Operating Expenses	(412,233)	(433,601)	21,368	(487,480)	53,879
Changes in Net Assets	<u>(106,298)</u>	<u>(171,408)</u>	<u>65,110</u>	<u>(135,682)</u>	<u>(35,726)</u>
Net Assets at Beginning of Year	<u>11,010,336</u>	<u>11,181,744</u>	<u>(171,408)</u>	<u>11,317,426</u>	<u>(135,682)</u>
Net Assets at End of Year	<u>\$ 10,904,038</u>	<u>\$ 11,010,336</u>	<u>\$ (106,298)</u>	<u>\$ 11,181,744</u>	<u>\$ (171,408)</u>

Operating revenues increased \$26,014 from 2010 to 2011 due to an increase in contract fee revenue. The contract fee revenue increased primarily due to increased water usage and a rate increase by the City of Lima. Operating expenses, exclusive of depreciation, decreased \$13,614 primarily due to decreases in trustee fees, legal fees, and engineering fees which were partially offset by depreciation expense. The increase in contract fees expense is associated with an increase in contract fee revenue. Interest income decreased \$19,000 due to decreasing special assessment receivable balances and declining interest rates. Capital permit fees increased \$33,629 due to a slight increase in construction. Interest expense decreased \$28,255 due to decreasing balances of OWDA notes payable.

Operating revenues increased \$13,032 from 2009 to 2010 due to an increase in contract fee revenue. The contract fee revenue increased primarily due to increased water usage and a rate increase by the City of Lima. Operating expenses, exclusive of depreciation, increased \$37,244 primarily due to increases in contract fees expense and legal fees. The increase in contract fees expense is associated with an increase in contract fee revenue. The increase in legal fees related to research conducted regarding a legal issue regarding the District and the Townships located within the District. Interest income decreased \$20,096 due to decreasing special assessment receivable balances and declining interest rates. Tap fees decreased \$16,085 and capital permit fees decreased \$27,200 due to a decrease in construction. Non-capitalized waterline relocation expenses decreased \$27,211 due to residual expenses of the waterline relocation project which occurred in 2009 that did not occur again in 2010. Interest expense decreased \$26,483 due to decreasing balances of OWDA notes payable.

**Allen Water District
Allen County, Ohio**

**Management's Discussion and Analysis
For the Years Ended December 31, 2011 and 2010**

CAPITAL ASSETS

The District had \$16,025,738 invested in capital assets (before depreciation) at the end of 2011. This amount is a decrease of \$17,044 (0.1%) and is due to the disposal of old office equipment when the District moved to their new location in 2011. The District had \$11,698,723 invested in net capital assets (after depreciation) at the end of 2011. This amount is a decrease of \$316,424 (-2.6%) from the previous year and is primarily due to depreciation expense.

The District had \$16,042,782 invested in capital assets (before depreciation) at the end of 2010. This amount is an increase of \$900 (less than 0.01%) and is due to the purchase of a laptop computer. The District had \$12,015,147 invested in net capital assets (after depreciation) at the end of 2010. This amount is a decrease of \$314,621 (-2.6%) from the previous year and is primarily due to depreciation expense.

**(Table 3)
Capital Assets at December 31**

	2011	2010	2009
Land Easements	\$ 7,186	\$ 7,186	\$ 7,186
Water Lines	16,011,469	16,011,469	16,011,469
Office Furniture & Equipment	7,083	24,127	23,227
Totals Before Accumulated Depreciation	16,025,738	16,042,782	16,041,882
Accumulated Depreciation	(4,327,015)	(4,027,635)	(3,712,114)
Net Capital Assets	\$11,698,723	\$12,015,147	\$12,329,768

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

**Allen Water District
Allen County, Ohio**

**Management's Discussion and Analysis
For the Years Ended December 31, 2011 and 2010**

DEBT

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

**(Table 4)
Outstanding Debt, at December 31**

	<u>2011</u>	<u>2010</u>	<u>2009</u>
OWDA Loans	\$ 6,180,638	\$ 6,640,914	\$ 7,072,935
Rotary Commission Loans	274,958	274,958	274,958
Total Long Term Debt	6,455,596	6,915,872	7,347,893
Less			
Current Maturities	<u>490,422</u>	<u>460,275</u>	<u>432,021</u>
Net Long Term Debt	<u>\$ 5,965,174</u>	<u>\$ 6,455,597</u>	<u>\$ 6,915,872</u>

CASH

Cash and cash equivalents on December 31, 2011 were \$835,003 and on December 31, 2010 were \$779,064.

CONTACT INFORMATION

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

**Allen Water District
Allen County, Ohio**

**Statements of Net Assets
As of December 31, 2011 and 2010**

ASSETS

	2011	2010
CURRENT ASSETS:		
Cash and cash equivalents	\$ 835,003	\$ 779,064
Accounts receivable	112,931	59,257
Intergovernmental receivable	3,261	3,616
Prepaid insurance	1,489	1,496
Total current assets	952,684	843,433
 NONCURRENT ASSETS:		
Capital Assets:		
Land easements	7,186	7,186
Water lines	16,011,469	16,011,469
Office furniture and equipment	7,083	24,127
	16,025,738	16,042,782
Less: Accumulated depreciation	(4,327,015)	(4,027,635)
Net capital assets	11,698,723	12,015,147
 Other Assets:		
Assessments receivable	5,166,470	5,490,376
Planning costs	63,034	69,922
Total other assets	5,229,504	5,560,298
 TOTAL ASSETS	 \$ 17,880,911	 \$ 18,418,878

(Continued)

Allen Water District
Allen County, Ohio

Statements of Net Assets - Continued
As of December 31, 2011 and 2010

LIABILITIES AND NET ASSETS

	<u>2011</u>	<u>2010</u>
CURRENT LIABILITIES:		
Accounts payable	\$ 58,292	\$ 27,207
Accrued interest	3,261	3,616
Vacation and personal leave accrual	98	1,575
Payroll taxes accrued and withheld	2,421	3,067
Notes payable - current portion	490,422	460,275
Total current liabilities	<u>554,494</u>	<u>495,740</u>
LONG-TERM LIABILITIES:		
Deferred revenues	457,205	457,205
Notes payable	5,965,174	6,455,597
Total long-term liabilities	<u>6,422,379</u>	<u>6,912,802</u>
TOTAL LIABILITIES	<u>6,976,873</u>	<u>7,408,542</u>
NET ASSETS:		
Invested in capital assets, net of related debt	5,243,127	5,099,275
Unrestricted	5,660,911	5,911,061
TOTAL NET ASSETS	<u>\$ 10,904,038</u>	<u>\$ 11,010,336</u>

See accompanying notes to the basic financial statements.

**Allen Water District
Allen County, Ohio**

**Statements of Revenues, Expenses and Changes in Net Assets
For the Years Ended December 31, 2011 and 2010**

	2011	2010
OPERATING REVENUES:		
District fees	\$ 351,394	\$ 357,624
Contract fees revenue	339,240	306,996
	690,634	664,620
 OPERATING EXPENSES:		
Office wages	26,153	23,470
Contract fees expense	339,240	306,996
Trustee fees	15,100	20,125
Payroll taxes and workers compensation	976	962
PERS expense	5,982	5,883
Engineering fees	0	5,497
Legal fees	3,912	26,289
Accounting fees	12,122	13,116
Audit fees	139	9,260
Insurance	3,312	3,370
Telephone/data communications	755	2,130
Office supplies	691	1,901
Equipment maintenance	0	414
Office rent	12,150	12,210
Office maintenance	455	841
Public relations	500	500
Postage	94	148
Easement rent	412	400
Utilities	593	1,230
Depreciation	321,031	315,521
Transportation	791	1,907
Other	0	342
	744,408	752,512
 Operating loss	 \$ (53,774)	 \$ (87,892)

(Continued)

Allen Water District
Allen County, Ohio

Statements of Revenues, Expenses and Changes in Net Assets - Continued
For the Years Ended December 31, 2011 and 2010

	<u>2011</u>	<u>2010</u>
NONOPERATING REVENUES (EXPENSES):		
Tap fees	7,117	10,990
Intergovernmental	6,877	7,562
Interest income	303,993	322,993
Capital permit fees	41,129	7,500
CIP revenues	383	655
Meter fees	210	385
Non-capitalized planning costs	(6,887)	0
Interest expense	<u>(405,346)</u>	<u>(433,601)</u>
Net nonoperating revenues (expenses)	<u>(52,524)</u>	<u>(83,516)</u>
Changes in net assets	(106,298)	(171,408)
Net assets, beginning of year	<u>11,010,336</u>	<u>11,181,744</u>
Net assets, end of year	<u><u>\$ 10,904,038</u></u>	<u><u>\$ 11,010,336</u></u>

See accompanying notes to the basic financial statements.

**Allen Water District
Allen County, Ohio**

**Statements of Cash Flows
For the Years Ended December 31, 2011 and 2010**

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from customers	\$ 297,720	\$ 350,500
Cash received from contract fee revenues	339,240	306,996
Cash payments to suppliers for goods and services	(344,074)	(405,946)
Cash payments for employee services and benefits	(50,334)	(47,764)
Net cash provided by operating activities	242,552	203,786
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Tap fees	7,117	10,990
Capital permit fees	41,129	7,500
CIP revenues	383	655
Meter fees	210	385
Intergovernmental	7,232	7,892
OWDA principal payments	(460,276)	(432,021)
OWDA interest payments	(405,701)	(433,933)
Special assessments collections	323,906	304,546
Special assessment interest income	303,288	321,709
Capital outlay	(4,607)	(900)
Net cash used by capital and related financing activities	(187,319)	(213,177)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest on cash and cash equivalents	706	1,284
Net increase (decrease) in cash and cash equivalents	55,939	(8,107)
Cash and cash equivalents at beginning of year	779,064	787,171
Cash and cash equivalents at end of year	\$ 835,003	\$ 779,064

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**Allen Water District
Allen County, Ohio**

**Statements of Cash Flows - Continued
For the Years Ended December 31, 2011 and 2010**

	2011	2010
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating loss	\$ (53,774)	\$ (87,892)
ADJUSTMENTS TO RECONCILE OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Depreciation	321,031	315,521
Changes in Assets and Liabilities:		
Increase in accounts receivable	(53,674)	(7,124)
Decrease in prepaid insurance	7	49
Increase/(decrease) in accounts payable (operating)	31,085	(19,444)
(Decrease)/increase in accrued wages and benefits	(2,123)	2,676
Total adjustments	296,326	291,678
Net cash provided by operating activities	\$ 242,552	\$ 203,786

See accompanying notes to the basic financial statements.

**Allen Water District
Allen County, Ohio**

**Notes to the Basic Financial Statements
For the Years Ended December 31, 2011 and 2010**

NOTE A – NATURE OF ORGANIZATION

The Allen Water District, hereafter referred to as “the District,” was created by the Court of Common Pleas of Allen County in accordance with the provisions of Section 6119.01 to provide water services to the residents of Bath, American, Perry, and Shawnee Townships. A seven (7) member appointed Board of Trustees manage the Allen Water District.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

The accounts of the District are organized on the basis of funds, to report on its financial position and the results of its operations, each of which is considered a separate accounting entity. The District has created a single type of fund and a single fund within that fund type. The fund is accounted for by a separate set of self-balancing accounts that comprise its assets, liabilities, net assets, 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:

Business Type Activity:

Proprietary Fund Type - This fund type accounts for operations that are organized to be self-supporting through user charges. The fund included in this category used by the District is the Enterprise Fund. Under the guidelines of GASB Statement No. 20, the District has elected not to apply Financial Accounting Standards Board Statements and Interpretations issued after November 30, 1989 to its proprietary activities. The adoption of this approach to accounting policies consistently applied in preparation of the accompanying financial statements follows:

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

2. **Basis of Accounting and Measurement Focus**

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

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

**Allen Water District
Allen County, Ohio**

**Notes to the Basic Financial Statements
For the Years Ended December 31, 2011 and 2010**

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

3. **Budgetary Process**

The Ohio Revised Code requires that each fund be budgeted annually. The District has adopted a budget for the years ended December 31, 2011 and 2010, and has adopted and passed annual appropriations resolutions.

Appropriations – For the fiscal year ended December 31, 2010, budgetary expenditures (that is, disbursements and encumbrances) may not exceed appropriations at the fund and object level of control and, within each, the amount appropriated for personal services. For the fiscal year ended December 31, 2011, the District changed their legal level of control so that budgetary expenditures could not exceed appropriations at the levels of operating expenditures, direct project expenditures, debt payments, capital expenditures, contract expense, and private development expense and, within each, the amount appropriated for personal services. The District must annually approve appropriation measures and subsequent amendments. For both years, appropriations may not exceed estimated resources.

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

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

4. **Cash and Investments**

Cash balances are held in a central bank account, various savings accounts, and also invested in STAR Ohio during 2010 and a portion of 2011. 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.

5. **Accounts Receivable**

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

6. **Prepaid Expenses**

Payments made to vendors for services that will benefit periods beyond December 31, 2011 and 2010 are recorded as prepaid items using the consumption method. A current asset of the prepaid amount is recorded at the time of purchase and as an expense in the year in which the services are consumed.

7. **Capital Assets**

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

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

8. **Planning Costs - Proposed Projects**

The planning costs for proposed projects are comprised of engineering, legal and administrative planning costs which are not allocated to specific projects currently in construction. If the proposed project begins construction, the respective planning costs will be included in capital assets and depreciated (as Note B7 defines). If the proposed project does not enter construction, respective planning costs will be deemed impaired assets and written-off. During 2011, the District wrote off \$6,887 in planning costs.

**Allen Water District
Allen County, Ohio**

**Notes to the Basic Financial Statements
For the Years Ended December 31, 2011 and 2010**

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

9. **Interest Expense**

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

10. **Revenue Recognition**

Revenues for service fees are recorded in the period the service is provided. Revenues for tap fees are recorded when the taps have been installed and the customer is using the service. All other revenue is recognized when earned.

11. **Income Tax**

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

12. **Net Assets**

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consist of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvements of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The District applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available. The District had no restricted net assets as of December 31, 2011 and 2010.

13. **Estimates**

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

14. **Operating Revenues and Expenses**

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

15. **Accrued Liabilities and Long-Term Obligations**

All payables, accrued liabilities, and long-term obligations are reported in the financial statements when the liability is incurred.

**Allen Water District
Allen County, Ohio**

**Notes to the Basic Financial Statements
For the Years Ended December 31, 2011 and 2010**

NOTE C – CASH AND INVESTMENTS - LEGAL REQUIREMENTS FOR DEPOSITS

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

Inactive deposits are public deposits that the Board of Trustees has identified as not required for use within the current five-year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.

Interim deposits are deposits of interim monies. Interim monies are those monies which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories.

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

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

Protection of the District's deposits is provided by the Federal Deposit Insurance Corporation, by eligible securities pledged by the financial institution as security for repayment, by surety company bonds deposited with the Treasurer by the financial institution, or by a single collateral pool established by the financial institution to secure the repayment of all public monies deposited with the institution.

**Allen Water District
Allen County, Ohio**

**Notes to the Basic Financial Statements
For the Years Ended December 31, 2011 and 2010**

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

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. Investments must mature within five years from the date of purchase unless matched to a specific obligation or debt of the District, and must be purchased with the expectation that it will be held to maturity.

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

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

As of December 31, 2011 and 2010, the carrying amount of the District's deposits was \$834,803 and \$407,363, respectively. As of December 31, 2011, the District's bank balance of \$834,803 is either covered by FDIC or collateralized by the financial institutions' public entity deposit pools in the manner described above. As of December 31, 2010, the District's bank balance of \$435,256 is either covered by FDIC or collateralized by the financial institutions' public entity deposit pools in the manner described above. In addition, \$200 was carried in a petty cash fund for both fiscal years.

Investments - The District has invested in the State Treasury Asset Reserve of Ohio (STAR Ohio) during a portion of the year ended December 31, 2011 and all of the fiscal year 2010. 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, 2010. The District's investments in STAR Ohio are unclassified investments since they are not evidenced by securities that exist in physical or book entry form.

	2011		2010	
	Fair Value	Weighted Average Maturity (Yrs.)	Fair Value	Weighted Average Maturity (Yrs.)
STAR Ohio	\$0	0	\$371,501	0
Total Fair Value	\$0		\$371,501	

Interest rate risk – In accordance with the investment policy, the District manages its exposure to declines in fair values by investing exclusively in STAR Ohio.

Credit risk – In accordance with the investment policy, the District limits its investments to STAR Ohio. Investments in STAR Ohio were rated AAAM by Standard & Poor's.

Concentration of credit risk – The District's investment policy allows investments in STAR Ohio, Repurchase Agreements, Certificates of Deposit or with financial institutions within the State of Ohio as designated by the Federal Reserve Board. The District has invested 100% in investments in STAR Ohio as of December 31, 2010 and had no investments as of December 31, 2011.

**Allen Water District
Allen County, Ohio**

**Notes to the Basic Financial Statements
For the Years Ended December 31, 2011 and 2010**

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

Custodial credit risk – Custodial credit risk is the risk that in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. In accordance with the investment policy, all of the District's securities are either insured and registered in the name of the District or at least registered in the name of the District.

NOTE D – ACCOUNTS RECEIVABLE/SPECIAL ASSESSMENTS RECEIVABLE

The accounts receivable balance of \$112,931 at December 31, 2011 (\$59,257 at December 31, 2010) is current (due 0-30 days). Assessment receivables of \$5,166,470 at December 31, 2011 (\$5,490,376 at December 31, 2010) represent the remaining balance of construction assessments, less prepayments, and principal amounts received from the county auditor.

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

NOTE E – DISTRICT AND CONTRACT FEES

The District's customers, as an outside the city user, pay a service charge for water as well as a contract fee, not to exceed 50 percent of the water service charge, for the right and privilege of receiving water services as defined in the contract between the District and the City of Lima. The City of Lima is responsible for the billing and collection of all fees on behalf of the District.

NOTE F - COMPENSATED ABSENCES

The District uses the provisions of GASB Statement No. 16, "Accounting for Compensated Absences." Vacation and personal leave benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the employer will compensate the employees for the benefits through paid time off or some other means. Sick leave benefits are not accrued as a liability as employees receive no payment for accrued sick leave upon termination or retirement. The vacation and personal leave accrual as of December 31, 2011 and 2010 was \$98 and \$1,575, respectively.

**Allen Water District
Allen County, Ohio**

**Notes to the Basic Financial Statements
For the Years Ended December 31, 2011 and 2010**

NOTE G – RISK MANAGEMENT

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

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

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

	<u>2011</u>	<u>2010</u>
Assets	\$ 12,501,280	\$ 12,036,541
Liabilities	<u>(5,328,761)</u>	<u>(4,845,056)</u>
Members' Equity	<u>\$ 7,172,519</u>	<u>\$ 7,191,485</u>

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

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**Allen Water District
Allen County, Ohio**

**Notes to the Basic Financial Statements
For the Years Ended December 31, 2011 and 2010**

NOTE H – CAPITAL ASSETS

Capital assets activity for the year ended December 31, 2011 was as follows:

	Ending Balance 12/31/10	Additions	Deletions	Ending Balance 12/31/11
Capital Assets, Not Being Depreciated				
Land Easements	\$ 7,186	\$ -	\$ -	\$ 7,186
Total Capital Assets, Not Being Depreciated	7,186	-	-	7,186
Capital Assets Being Depreciated				
Water Lines	16,011,469	-	-	16,011,469
Office Furniture and Equipment	24,127	4,607	(21,651)	7,083
Total Capital Assets, Being Depreciated	16,035,596	4,607	(21,651)	16,018,552
Less Accumulated Depreciation:				
Water Lines	(4,004,478)	(320,229)	-	(4,324,707)
Office Furniture and Equipment	(23,157)	(802)	21,651	(2,308)
Total Accumulated Depreciation	(4,027,635)	(321,031)	21,651	(4,327,015)
Total Capital Assets Being Depreciated, Net	12,007,961	(316,424)	-	11,691,537
Total Capital Assets, Net	\$ 12,015,147	\$ (316,424)	\$ -	\$ 11,698,723

Capital assets activity for the year ended December 31, 2010 was as follows:

	Ending Balance 12/31/09	Additions	Deletions	Ending Balance 12/31/10
Capital Assets, Not Being Depreciated				
Land Easements	\$ 7,186	\$ -	\$ -	\$ 7,186
Total Capital Assets, Not Being Depreciated	7,186	-	-	7,186
Capital Assets Being Depreciated				
Water Lines	16,011,469	-	-	16,011,469
Office Furniture and Equipment	23,227	900	-	24,127
Total Capital Assets, Being Depreciated	16,034,696	900	-	16,035,596
Less Accumulated Depreciation:				
Water Lines	(3,689,370)	(315,108)	-	(4,004,478)
Office Furniture and Equipment	(22,744)	(413)	-	(23,157)
Total Accumulated Depreciation	(3,712,114)	(315,521)	-	(4,027,635)
Total Capital Assets Being Depreciated, Net	12,322,582	(314,621)	-	12,007,961
Total Capital Assets, Net	\$ 12,329,768	\$ (314,621)	\$ -	\$ 12,015,147

**Allen Water District
Allen County, Ohio**

**Notes to the Basic Financial Statements
For the Years Ended December 31, 2011 and 2010**

NOTE H – CAPITAL ASSETS - Continued

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

	<u>2011</u>	<u>2010</u>
Land easement	\$ 7,186	\$ 7,186
Water lines:		
Elm and Copus	349,046	349,046
Shawnee	1,447,304	1,447,304
McDonel	859,112	859,112
Hawthorne	211,545	211,545
State Route 309	261,180	261,180
Allentown	1,759,880	1,759,880
Buckeye Road	317,070	317,070
Shagbark and Snowberry	153,781	153,781
Springbrook	883,148	883,148
East Breese	542,554	542,554
Greely Chapel South	170,267	170,267
Dixie/Blue I & II	782,167	782,167
East Bluelick Extension	99,872	99,872
Hawthorne Extension	58,946	58,946
Lee Ann	41,969	41,969
Woodbriar	635,386	635,386
Metzger	98,363	98,363
Linfield	79,094	79,094
Fetter	216,663	216,663
Stewart	202,941	202,941
Dixie North - King	149,768	149,768
Sweger-Fraunfelter	231,822	231,822
Diller/Eastown/Frank	526,584	526,584
Eastown	185,540	185,540
Colony Park	264,676	264,676
Dixie North #3	80,107	80,107
Zurmehly Road Extension	44,470	44,470
Bath Loop	402,204	402,204
Cotner/Wapak	231,657	231,657
Shawnee Phase II	884,160	884,160
Fort Amanda Loop	180,962	180,962
Cole Street Extension Loop	139,666	139,666
North West Street	129,588	129,588
North Cole Street Extension Loop	29,288	29,288
Bluelick/Thayer	306,665	306,665
Berryhill	205,454	205,454
Developer donated lines	2,848,570	2,848,570
Total water lines	<u>16,011,469</u>	<u>16,011,469</u>
Office furniture and equipment	7,083	24,127
Total capital assets	<u>16,025,738</u>	<u>16,042,782</u>
Less accumulated depreciation	<u>(4,327,015)</u>	<u>(4,027,635)</u>
Net capital assets	<u>\$ 11,698,723</u>	<u>\$ 12,015,147</u>

**Allen Water District
Allen County, Ohio**

**Notes to the Basic Financial Statements
For the Years Ended December 31, 2011 and 2010**

NOTE I – CURRENT AND LONG-TERM DEBT

Long-term debt obligations and the related transactions for the years ended December 31, 2010 and 2011 are summarized below:

	<u>Balance 12/31/09</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 12/31/10</u>	<u>Due Within One Year</u>
Note Payable OWDA #1445, payable in 50 semiannual installments of \$15,886 starting January 1, 1993, including interest at 7.56%, due July, 2017	\$ 176,588	\$ -	\$ 18,382	\$ 158,206	\$ 19,772
Note Payable OWDA #1446, payable in 50 semiannual installments of \$758 starting January 1, 1993, including interest at 7.45%, due July, 2017	8,470	-	885	7,585	951
Note Payable OWDA #1447, payable in 50 semiannual installments of \$75,646 starting January 1, 1994, including interest at 7.54%, due July, 2018	924,108	-	81,615	842,493	87,768
Note Payable OWDA #1448, payable in 50 semiannual installments of \$42,821 starting January 1, 1994, including interest at 7.24%, due July, 2018	529,493	-	47,307	482,186	50,731
Note Payable OWDA #1449, payable in 50 semiannual installments of \$10,558 starting January 1, 1994, including interest at 7.21%, due July, 2018	130,712	-	11,692	119,020	12,534
Note Payable OWDA #2139, payable in 50 semiannual installments of \$5,095 starting July 1, 2001, including interest at 5.77%, due January, 2026	105,522	-	4,160	101,362	4,404

**Allen Water District
Allen County, Ohio**

**Notes to the Basic Financial Statements
For the Years Ended December 31, 2011 and 2010**

NOTE I – CURRENT AND LONG-TERM DEBT – Continued

	<u>Balance 12/31/09</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 12/31/10</u>	<u>Due Within One Year</u>
Note Payable OWDA #2961, payable in 50 semiannual installments of \$6,391 starting January 1, 1996, including interest at 6.72%, due July, 2020	\$ 94,072	\$ -	\$ 6,460	\$ 87,612	\$ 6,894
Note Payable OWDA #2975, payable in 50 semiannual installments of \$29,635 starting January 1, 1997, including interest at 6.72%, due July, 2021	464,297	-	28,070	436,227	29,956
Note Payable OWDA #3017, payable in 50 semiannual installments of \$71,784 starting January 1, 1995, including interest at 6.85%, due July, 2019	978,402	-	76,549	901,853	81,792
Note Payable OWDA #3018, payable in 50 semiannual installments of \$8,149 starting July 1, 1995, including interest at 6.24%, due January, 2020	118,595	-	8,897	109,698	9,452
Note Payable OWDA #3036, payable in 50 semiannual installments of \$6,948 starting January 1, 1995, including interest at 6.51%, due July, 2019	96,149	-	7,636	88,513	8,133
Note Payable OWDA #3111, payable in 50 semiannual installments of \$11,650 starting January 1, 1995, including interest at 5.9%, due July, 2019	165,743	-	13,522	152,221	14,320

**Allen Water District
Allen County, Ohio**

**Notes to the Basic Financial Statements
For the Years Ended December 31, 2011 and 2010**

NOTE I – CURRENT AND LONG-TERM DEBT – Continued

	<u>Balance 12/31/09</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 12/31/10</u>	<u>Due Within One Year</u>
Note Payable OWDA #3129, payable in 50 semiannual installments of \$6,106 starting January 1, 1998, including interest at 5.94%, due July, 2023	\$ 108,487	\$ -	\$ 5,768	\$ 102,719	\$ 6,110
Note Payable OWDA #3130, payable in 50 semiannual installments of \$4,394 starting July 1, 1999, including interest at 6.32%, due January, 2024	80,060	-	3,728	76,332	3,964
Note Payable OWDA #3131, payable in 50 semiannual installments of \$22,602 starting July 1, 1999, including interest at 5.66%, due January, 2024	429,016	-	20,921	408,095	22,105
Note Payable OWDA #3132, payable in 50 semiannual installments of \$16,091 starting January 1, 2000, including interest at 5.54%, due July, 2024	314,998	-	14,731	300,267	15,547
Note Payable OWDA #3209, payable in 50 semiannual installments of \$6,886 starting July 1, 2001, including interest at 6.13%, due January, 2026	139,158	-	5,322	133,836	5,653
Note Payable OWDA #3210, payable in 50 semiannual installments of \$6,650 starting July 1, 2001, including interest at 6.13%, due January, 2026	134,386	-	5,138	129,248	5,459

**Allen Water District
Allen County, Ohio**

**Notes to the Basic Financial Statements
For the Years Ended December 31, 2011 and 2010**

NOTE I – CURRENT AND LONG-TERM DEBT – Continued

	<u>Balance 12/31/09</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 12/31/10</u>	<u>Due Within One Year</u>
Note Payable OWDA #3230, payable in 50 semiannual installments of \$25,851 starting July 1, 2001, including interest at 6.41%, due January, 2026	\$ 512,663	\$ -	\$ 19,141	\$ 493,522	\$ 20,389
Note Payable OWDA #3297, payable in 50 semiannual installments of \$3,104 starting July 1, 2001, including interest at 6.39%, due January, 2026	61,648	-	2,306	59,342	2,455
Note Payable OWDA #3874, payable in 50 semiannual installments of \$7,864 starting January 1, 2004, including interest at 4.28%, due July, 2028	199,604	-	7,262	192,342	7,576
Note Payable OWDA #3910, payable in 50 semiannual installments of \$6,226 starting January 1, 2004, including interest at 4.28%, due July, 2028	158,019	-	5,748	152,271	5,998
Note Payable OWDA #4056, payable in 50 semiannual installments of \$22,038 starting January 1, 2005, including interest at 4.16%, due July, 2029	584,806	-	19,953	564,853	20,791
Note Payable OWDA #4279, payable in 50 semiannual installments of \$3,182 starting January 1, 2006, including interest at 4.0%, due July, 2030	88,467	-	2,854	85,613	2,969

**Allen Water District
Allen County, Ohio**

**Notes to the Basic Financial Statements
For the Years Ended December 31, 2011 and 2010**

NOTE I – CURRENT AND LONG-TERM DEBT – Continued

	<u>Balance 12/31/09</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 12/31/10</u>	<u>Due Within One Year</u>
Note Payable OWDA #4566, payable in 50 semiannual installments of \$16,517 starting January 1, 2007, including interest at 4.09%, due July, 2031	\$ 469,472	\$ -	\$ 13,974	\$ 455,498	\$ 14,552
Ohio Water & Sewer Rotary See additional documentation below	274,958	-	-	274,958	-
Compensated Absences	-	1,575	-	1,575	1,575
Totals	<u>\$ 7,347,893</u>	<u>\$ 1,575</u>	<u>\$ 432,021</u>	<u>\$ 6,917,447</u>	<u>\$ 461,850</u>

**Allen Water District
Allen County, Ohio**

**Notes to the Basic Financial Statements
For the Years Ended December 31, 2011 and 2010**

NOTE I – CURRENT AND LONG-TERM DEBT – Continued

	<u>Balance 12/31/10</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 12/31/11</u>	<u>Due Within One Year</u>
Note Payable OWDA #1445, payable in 50 semiannual installments of \$15,886 starting January 1, 1993, including interest at 7.56%, due July, 2017	\$ 158,206	\$ -	\$ 19,772	\$ 138,434	\$ 21,267
Note Payable OWDA #1446, payable in 50 semiannual installments of \$758 starting January 1, 1993, including interest at 7.45%, due July, 2017	7,585	-	951	6,634	1,022
Note Payable OWDA #1447, payable in 50 semiannual installments of \$75,646 starting January 1, 1994, including interest at 7.54%, due July, 2018	842,493	-	87,768	754,725	94,386
Note Payable OWDA #1448, payable in 50 semiannual installments of \$42,821 starting January 1, 1994, including interest at 7.24%, due July, 2018	482,186	-	50,731	431,455	54,404
Note Payable OWDA #1449, payable in 50 semiannual installments of \$10,558 starting January 1, 1994, including interest at 7.21%, due July, 2018	119,020	-	12,534	106,486	13,438

**Allen Water District
Allen County, Ohio**

**Notes to the Basic Financial Statements
For the Years Ended December 31, 2011 and 2010**

NOTE I – CURRENT AND LONG-TERM DEBT – Continued

	<u>Balance 12/31/10</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 12/31/11</u>	<u>Due Within One Year</u>
Note Payable OWDA #2139, payable in 50 semiannual installments of \$5,095 starting July 1, 2001, including interest at 5.77%, due January, 2026	\$ 101,362	\$ -	\$ 4,404	\$ 96,958	\$ 4,661
Note Payable OWDA #2961, payable in 50 semiannual installments of \$6,391 starting January 1, 1996, including interest at 6.72%, due July, 2020	87,612	-	6,894	80,718	7,357
Note Payable OWDA #2975, payable in 50 semiannual installments of \$29,635 starting January 1, 1997, including interest at 6.72%, due July, 2021	436,227	-	29,956	406,271	31,969
Note Payable OWDA #3017, payable in 50 semiannual installments of \$71,784 starting January 1, 1995, including interest at 6.85%, due July, 2019	901,853	-	81,792	820,061	87,395
Note Payable OWDA #3018, payable in 50 semiannual installments of \$8,149 starting July 1, 1995, including interest at 6.24%, due January, 2020	109,698	-	9,452	100,246	10,042
Note Payable OWDA #3036, payable in 50 semiannual installments of \$6,948 starting January 1, 1995, including interest at 6.51%, due July, 2019	88,513	-	8,133	80,380	8,663

**Allen Water District
Allen County, Ohio**

**Notes to the Basic Financial Statements
For the Years Ended December 31, 2011 and 2010**

NOTE I – CURRENT AND LONG-TERM DEBT – Continued

	<u>Balance 12/31/10</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 12/31/11</u>	<u>Due Within One Year</u>
Note Payable OWDA #3111, payable in 50 semiannual installments of \$11,650 starting January 1, 1995, including interest at 5.9%, due July, 2019	\$ 152,221	\$ -	\$ 14,320	\$ 137,901	\$ 15,164
Note Payable OWDA #3129, payable in 50 semiannual installments of \$6,106 starting January 1, 1998, including interest at 5.94%, due July, 2023	102,719	-	6,110	96,609	6,473
Note Payable OWDA #3130, payable in 50 semiannual installments of \$4,394 starting July 1, 1999, including interest at 6.32%, due January, 2024	76,332	-	3,964	72,368	4,214
Note Payable OWDA #3131, payable in 50 semiannual installments of \$22,602 starting July 1, 1999, including interest at 5.66%, due January, 2024	408,095	-	22,106	385,989	23,357
Note Payable OWDA #3132, payable in 50 semiannual installments of \$16,091 starting January 1, 2000, including interest at 5.54%, due July, 2024	300,267	-	15,547	284,720	16,408
Note Payable OWDA #3209, payable in 50 semiannual installments of \$6,886 starting July 1, 2001, including interest at 6.13%, due January, 2026	133,836	-	5,653	128,183	6,004

**Allen Water District
Allen County, Ohio**

**Notes to the Basic Financial Statements
For the Years Ended December 31, 2011 and 2010**

NOTE I – CURRENT AND LONG-TERM DEBT – Continued

	<u>Balance 12/31/10</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 12/31/11</u>	<u>Due Within One Year</u>
Note Payable OWDA #3210, payable in 50 semiannual installments of \$6,650 starting July 1, 2001, including interest at 6.13%, due January, 2026	\$ 129,248	\$ -	\$ 5,459	\$ 123,789	\$ 5,799
Note Payable OWDA #3230, payable in 50 semiannual installments of \$25,851 starting July 1, 2001, including interest at 6.41%, due January, 2026	493,522	-	20,389	473,133	21,716
Note Payable OWDA #3297, payable in 50 semiannual installments of \$3,104 starting July 1, 2001, including interest at 6.39%, due January, 2026	59,342	-	2,455	56,887	2,615
Note Payable OWDA #3874, payable in 50 semiannual installments of \$7,864 starting January 1, 2004, including interest at 4.28%, due July, 2028	192,342	-	7,576	184,766	7,904
Note Payable OWDA #3910, payable in 50 semiannual installments of \$6,226 starting January 1, 2004, including interest at 4.28%, due July, 2028	152,271	-	5,998	146,273	6,257
Note Payable OWDA #4056, payable in 50 semiannual installments of \$22,038 starting January 1, 2005, including interest at 4.16%, due July, 2029	564,853	-	20,791	544,062	21,665

**Allen Water District
Allen County, Ohio**

**Notes to the Basic Financial Statements
For the Years Ended December 31, 2011 and 2010**

NOTE I – CURRENT AND LONG-TERM DEBT – Continued

	Balance 12/31/10	Additions	Reductions	Balance 12/31/11	Due Within One Year
Note Payable OWDA #4279, payable in 50 semiannual installments of \$3,182 starting January 1, 2006, including interest at 4.0%, due July, 2030	\$ 85,613	\$ -	\$ 2,969	\$ 82,644	\$ 3,089
Note Payable OWDA #4566, payable in 50 semiannual installments of \$16,517 starting January 1, 2007, including interest at 4.09%, due July, 2031	455,498	-	14,552	440,946	15,153
Ohio Water & Sewer Rotary See additional documentation below	274,958	-	-	274,958	-
Compensated Absences	1,575	98	1,575	98	98
Totals	\$ 6,917,447	\$ 98	\$ 461,851	\$ 6,455,694	\$ 490,520

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

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

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

**Allen Water District
Allen County, Ohio**

**Notes to the Basic Financial Statements
For the Years Ended December 31, 2011 and 2010**

NOTE I – CURRENT AND LONG-TERM DEBT - Continued

Future principal and interest payments at December 31, 2011 on all OWDA loans are as follows:

Year Ending December 30,	OWDA Loans		
	Principal	Interest	Total
2012	\$ 490,422	\$ 375,198	\$ 865,620
2013	522,594	343,028	865,622
2014	556,925	308,697	865,622
2015	593,564	272,058	865,622
2016	632,670	232,953	865,623
2017-2021	2,125,387	616,615	2,742,002
2022-2026	959,795	179,808	1,139,603
2027-2031	299,281	24,109	323,390
Total	<u>\$ 6,180,638</u>	<u>\$ 2,352,466</u>	<u>\$ 8,533,104</u>

In connection with the OWDA loans, the District has pledged future revenues to repay this debt. The loans are payable through their final maturities solely from operating and certain nonoperating revenues received during the course of business. Revenues available for these loans for 2011 and 2010 were \$711,103 and \$707,709, respectively. Principal and interest payments totaled \$865,978 and \$865,954 for the years 2011 and 2010, respectively. The coverage ratios for these loans were 0.82 and 0.82 for the years ended December 31, 2011 and 2010, respectively.

NOTE J – DEFINED BENEFIT RETIREMENT PLAN

Ohio Public Employees Retirement System

- A. The Ohio Public Employees Retirement System (OPERS) administers three separate pension plans as described below:
- 1) The Traditional Pension Plan (TP) – a cost-sharing multiple-employer defined benefit pension plan.
 - 2) The Member-Directed Plan (MD) – a defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20% per year). Under the Member-Directed Plan members accumulate retirement assets equal to the value of member and (vested) employer contributions plus any investment earnings.
 - 3) The Combined Plan (CO) – a cost-sharing multiple-employer defined benefit pension plan. Under the Combined Plan, OPERS invests employer contributions to provide a formula retirement benefit similar in nature to the Traditional Pension Plan benefit. Member contributions, the investment of which is self-directed by the members, accumulate retirement assets in a manner similar to the Member-Directed Plan.
- B. OPERS provides retirement, disability, survivor and death benefits and annual cost-of-living adjustments to members of the Traditional Pension and Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits.
- C. Authority to establish and amend benefits is provided in Chapter 145 of the Ohio Revised Code.
- D. OPERS issues a stand-alone financial report. Interested parties may obtain a copy by writing to OPERS, Attention: Finance Director, 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 222-5601 or 1-800-222-7377.

**Allen Water District
Allen County, Ohio**

**Notes to the Basic Financial Statements
For the Years Ended December 31, 2011 and 2010**

NOTE J – DEFINED BENEFIT RETIREMENT PLAN (Continued)

Ohio Public Employees Retirement System (Continued)

- E. The Ohio Revised Code provides statutory authority for member and employer contributions. For 2011, 2010, and 2009, member and employer contribution rates were consistent across all three plans.

The member contribution rates were 10.0% for 2011, 2010 and 2009 for the District.

The employer contribution rates were 14.0% for 2011, 2010 and 2009 of covered payroll for the District.

The District's contributions to OPERS for the years ended December 31, 2011, 2010, and 2009 were \$5,982, \$5,883, and \$6,405, respectively, which were equal to the required contributions for those years.

NOTE K – POSTEMPLOYMENT BENEFITS

Ohio Public Employees Retirement System

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

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

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

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

OPERS issues a stand-alone financial report. Interested parties may obtain a copy by writing OPERS, Attention: Finance Director, 277 East Town Street, Columbus, Ohio 43215-4642, or by calling 614-222-5601 or 800-222-7377.

**Allen Water District
Allen County, Ohio**

**Notes to the Basic Financial Statements
For the Years Ended December 31, 2011 and 2010**

NOTE K – POSTEMPLOYMENT BENEFITS (Continued)

Ohio Public Employees Retirement System (Continued)

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

Employer contribution rates are expressed as a percentage of the covered payroll of active members. In 2011, 2010 and 2009, the District contributed at 14% of covered payroll. The Ohio Revised Code currently limits the employer contribution rate not to exceed 14% of covered payroll. Active members do not make contributions to the OPEB Plan.

OPERS' Post Employment Health Care plan was established under, and is administered in accordance with, Internal Revenue Code 401(h). Each year, the OPERS Retirement Board determines the portion of the employer contribution rate that will be set aside for funding of post employment health care benefits.

For 2011, the employer contributions allocated to the health care for members in the Traditional Plan was 4.0% during calendar year 2011. The portion of employer contributions allocated to health care for members in the Combined Plan was 6.5% during the calendar year 2011. For 2010 employer contributions allocated to the health care plan from January 1 through February 28, 2010 and March 1, 2010 through December 31, 2010 was 5.5% and 5.0% of covered payroll, respectively. For 2009, the employer contributions allocated to health care plan was 7.0% of covered payroll for all plans. The OPERS Retirement Board is also authorized to establish rules for the payment of a portion of the health care benefits provided, by the retiree or their surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected.

- C. The employer contributions that were used to fund post-employment benefits were \$1,709 for 2011, \$2,124 for 2010, and \$3,203 for 2009 which were equal to the required allocations for those years.
- D. The Health Care Preservation Plan (HCPP) adopted by the OPERS Retirement Board on September 9, 2004, was effective January 1, 2007. Member and employer contribution rates increased January 1 of each year from 2006 to 2008, which allowed additional funds to be allocated to the health care plan.

NOTE L – CONTINGENT LIABILITIES

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

Pending or Threatened Litigation – During the years ended December 31, 2011 and 2010, the District had no pending contingent liabilities of which management is aware.

Contractually Assumed Obligations – To Counsel's knowledge, the District has assumed contractual obligations only with regard to the financing of its planning and construction activities for the construction of water systems. No claim against these contractual obligations has been made or is anticipated that would result in an unfavorable outcome to the District.

Claims and Assessments – To Counsel's knowledge, there are no unasserted claims and/or assessments which, if asserted, would have a reasonable possibility of an unfavorable outcome with a material effect upon the financial condition of the District.

June 18, 2012

Board of Trustees
Allen Water District
Lima, Ohio 45801

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER
MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

We have audited the financial statements of the business-type activity of the Allen Water District (the "District") as of and for the years ended December 31, 2011 and 2010, and have issued our report thereon dated June 18, 2012. 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.

Internal Control over Financial Reporting

Management of the District is responsible for establishing and maintaining effective 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 auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

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

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

Compliance and Other Matters

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 grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the Allen Water District in a separate letter dated June 18, 2012.

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

Rea & Associates, Inc.

Allen Water District
Allen County, Ohio

Schedule of Prior Audit Findings
For the Years Ended December 31, 2011 and 2010

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain:
2009-2008	Lack of skills and knowledge to apply generally accepted accounting principles in preparing financial statements	Yes	



Dave Yost • Auditor of State

ALLEN WATER DISTRICT

ALLEN COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
OCTOBER 4, 2012**