

**LAKENGREN  
WATER AUTHORITY**

Basic Financial Statements  
*(Audited)*

For The Nine Months Ended

December 31, 2006

**BOARD OF TRUSTEES**





Mary Taylor, CPA  
Auditor of State

Board of Trustees  
Lakengren Water Authority  
209 Lakengren Drive West  
Eaton, Ohio 45320-2858

We have reviewed the *Independent Auditor's Report* of the Lakengren Water Authority, Preble County, prepared by Julian & Grube, Inc., for the audit period April 1, 2006 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 Lakengren Water Authority is responsible for compliance with these laws and regulations.

*Mary Taylor*

Mary Taylor, CPA  
Auditor of State

November 6, 2007

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**LAKENGREN WATER AUTHORITY  
PREBLE COUNTY, OHIO**

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## **Julian & Grube, Inc.**

*Serving Ohio Local Governments*

333 County Line Rd. West, Westerville, OH 43082 Phone: 614.846.1899 Fax: 614.846.2799

### **Independent Auditor's Report**

Board of Trustees  
Lakengren Water Authority  
209 Lakengren Drive West  
Eaton, OH 45320-2858

We have audited the accompanying financial statements of the business-type activities and each major enterprise fund of the Lakengren Water Authority, Preble County, Ohio, as of and for the nine months ended December 31, 2006, which collectively comprise Lakengren Water Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Lakengren Water Authority's management. Our responsibility is to express opinions 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.

As discussed in Note 1, the financial statements present nine months of the Lakengren Water Authority activity due to a change in fiscal year end. In addition, capital assets have been restated to reflect the modified approach for infrastructure as discussed in Note 7.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and each major enterprise fund of the Lakengren Water Authority, Preble County, as of December 31, 2006, and the respective changes in financial position and cash flows for the nine months 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 October 22, 2007, on our consideration of the Lakengren Water Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Independent Auditor's Report  
Board of Trustees  
Page Two

The management's discussion and analysis on pages 3 through 7 and Condition Assessment of the Lakengren Water Authority's Infrastructure Report Under the Modified Approach information on pages 27 through 35, are not required parts of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquires of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

A handwritten signature in cursive script that reads "Julian & Grube, Inc.".

Julian & Grube, Inc.  
October 22, 2007



**LAKENGREN WATER AUTHORITY**  
Preble County, Ohio  
Management's Discussion and Analysis  
For the Nine Months Ended December 31, 2006  
Unaudited

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The discussion and analysis of the Lakengren Water Authority's (the Water Authority) financial performance provides an overall review of the financial activities for the nine months ended December 31, 2006. The intent of this discussion and analysis is to look at the Water Authority's financial performance as a whole; readers should also review the financial statements and the notes to the basic financial statements to enhance their understanding of the Water Authority's financial performance.

**Financial Highlights**

Key Financial highlights for the nine months ended December 31, 2006 are as follows:

- Total net assets increased \$231,151 which represents a 3.48 percent increase from the fiscal year ended March 31, 2006.
- Total assets increased \$241,822 which represents a 2.82 percent increase from the fiscal year ended March 31, 2006.
- Total liabilities increased by \$10,671. Current liabilities decreased \$102,147. Non-current liabilities increased by \$112,818.

**Using this Financial Report**

This nine month report consists of three parts, the Management's Discussion and Analysis (MD&A), the basic financial statements and the required supplementary information. The basic financial statements include a Statement of Net Assets, a Statement of Revenues, Expenses, and Changes in Net Assets, and a Statement of Cash Flows.

*Statement of Net Assets*

The Statement of Net Assets includes all assets and liabilities, both financial and capital and short-term and long-term, using the accrual basis of accounting and economic resources measurement focus, which is similar to the accounting used by most private-sector companies. This basis of accounting takes into account all revenues and expenses during the year, regardless of when the cash is received or paid.

**LAKENGREN WATER AUTHORITY**  
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Table 1 provides a summary of the Water Authority's net assets for the nine months ended December 31, 2006 compared to the fiscal year ended March 31, 2006:

***Table 1***  
***Net Assets***

	December 31, 2006	(Restated) March 31, 2006	Change
<b>Assets:</b>			
Current and Other Assets	\$1,269,398	\$952,873	\$316,525
Nondepreciable Capital Assets	4,716,662	4,685,406	31,256
Depreciable Capital Assets, Net	2,835,867	2,941,826	(105,959)
<b>Total Assets</b>	<b>8,821,927</b>	<b>8,580,105</b>	<b>241,822</b>
<b>Liabilities:</b>			
Current and Other Liabilities	234,376	336,523	(102,147)
Long-Term Liabilities	1,717,975	1,605,157	112,818
<b>Total Liabilities</b>	<b>1,952,351</b>	<b>1,941,680</b>	<b>10,671</b>
<b>Net Assets:</b>			
Invested in Capital Assets, Net of Related Debt	5,682,648	5,912,994	(230,346)
Restricted	173,879	82,972	90,907
Unrestricted	1,013,049	642,459	370,590
<b>Total Net Assets</b>	<b>\$6,869,576</b>	<b>\$6,638,425</b>	<b>\$231,151</b>

Total net assets increased by \$231,151 or 3.48% with unrestricted net assets increasing by \$370,590 during the nine months ended December 31, 2006. This was mainly due to more revenues being collected because of a full nine months collection of the \$6 assessment charge that was added during the fiscal year ended March 31, 2006, which also explains the increase in cash and cash equivalents. Another contributing factor was the Water Authority switching to the modified approach to capital assets which decreased the depreciation expense for the nine months ended December 31, 2006. Total liabilities increased by \$10,671, with a large change between current and long-term liabilities offsetting each other. The offset was due to a decrease in contracts and retainage payable because of the completion of the water treatment plant during the nine months ended December 31, 2006 being offset by the additional OWDA loan proceeds received during the nine months ended December 31, 2006.

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 Management's Discussion and Analysis  
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Table 2 shows the changes in net assets for the nine months ended December 31, 2006 compared to the fiscal year ended March 31, 2006.

*Table 2*  
*Changes in Net Assets*

	December 31, 2006	March 31, 2006	Change
Operating Revenues:			
Charges for Services	\$979,938	\$927,383	\$52,555
Other	15,634	4,723	10,911
Non-Operating Revenues:			
Interest	23,191	21,649	1,542
Total Revenues	<u>1,018,763</u>	<u>953,755</u>	<u>65,008</u>
Operating Expenses:			
Personal Services and Fringe Benefits	324,922	468,768	(143,846)
Operations and Maintenance	50,078	89,079	(39,001)
Contractual Services	139,385	59,276	80,109
Supplies and Materials	59,997	28,676	31,321
Utilities	68,321	98,280	(29,959)
Depreciation	126,778	306,834	(180,056)
Other	616	618	(2)
Non-Operating Expenses:			
Loss on Disposal of Capital Assets	0	5,498	(5,498)
Interest and Fiscal Charges	17,515	30,638	(13,123)
Total Expenses	<u>787,612</u>	<u>1,087,667</u>	<u>(300,055)</u>
Increase (Decrease) in Net Assets	231,151	(133,912)	365,063
Net Assets March 31, 2006 and April 1, 2006	<u>6,638,425</u>	<u>6,772,337</u>	<u>(133,912)</u>
Net Assets at December 31, 2006 and March 31, 2006	<u><u>\$6,869,576</u></u>	<u><u>\$6,638,425</u></u>	<u><u>\$231,151</u></u>

The Water Authority changed its fiscal year end from March 31, to December 31, beginning April 1, 2006. Therefore, the December 31, 2006 report only contains nine months of activity compared to the fiscal year ended March 31, 2006 which contains twelve months of activity. This is why there is a large decrease in expenses for the nine months ended December 31, 2006. 75 percent of expenses for the fiscal year ended March 31, 2006 are \$815,750 which is a \$28,138 difference for the nine months ended December 31, 2006. Revenues increase during the nine months ended. This is due to a full nine months of collections of the additional \$6 assessment charge that was added during the fiscal year ended March 31, 2006.

**LAKENGREN WATER AUTHORITY**  
 Preble County, Ohio  
 Management's Discussion and Analysis  
 For the Nine Months Ended December 31, 2006  
 Unaudited

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**Capital Assets**

*Table 3*  
*Capital Assets, Net of Depreciation*

	December 31, 2006	March 31, 2006
Land	\$67,842	\$60,342
Construction in Progress	0	1,849,359
Infrastructure	4,648,820	2,775,705
Buildings	71,524	77,036
Vehicles	34,664	22,896
Equipment	23,830	29,544
Infrastructure	2,705,849	2,812,350
Totals	\$7,552,529	\$7,627,232

A review of Table 3 shows that capital assets (net of depreciation) decreased \$74,703. The overall decrease is mainly due to depreciation exceeding additions for fiscal year 2006.

See Note 7 of the notes to the basic financial statements for more detailed information.

**Debt**

At December 31, 2006, the Water Authority had mortgage revenue bonds outstanding in the amount of \$205,000, \$100,000 of which is due within one year.

The mortgage revenue bonds were issued in 1998 to advance refund \$960,000 of outstanding 1989 Series bonds with an average interest rate of 8.5 percent.

The Water Authority has an OWDA Loan outstanding at December 31, 2006. The total amount of the loan is \$1,667,151 and bears an interest rate of 2.75 percent with final maturity on July 1, 2026. The loan was issued for the construction of a new water treatment plant. The debt payments will be paid from the Water Fund.

See Note 6 of the notes to the basic financial statements for more detailed information.

**LAKENGREN WATER AUTHORITY**  
Preble County, Ohio  
Management's Discussion and Analysis  
For the Nine Months Ended December 31, 2006  
Unaudited

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**Contacting the Water Authority**

This financial report is designed to provide the citizens of the Lakengren community and the Water Authority's creditors with a general overview of the Water Authority's finances and to show accountability for the monies it receives. If you have any questions about this report or need additional financial information, contact Barbara Gray, Office Manager, 209 Lakengren Drive West, Eaton, Ohio 45320-2858, 937-456-4455 or email to [alakengrenwater@woh.rr.com](mailto:alakengrenwater@woh.rr.com).

**LAKENGREN WATER AUTHORITY**  
Statement of Net Assets  
Enterprise Funds and Total Business-Type Activities  
December 31, 2006

	<u>Business-Type Activities - Enterprise Funds</u>		
	<u>WATER</u>	<u>SEWER</u>	<u>TOTAL</u>
<b>ASSETS:</b>			
Current Assets:			
Equity in Pooled Cash and Cash Equivalents	\$458,222	\$320,871	\$779,093
Accrued Interest Receivable	2,629	4,151	6,780
Materials and Supplies Inventory	8,095	30,286	38,381
Accounts Receivable	82,327	173,503	255,830
Prepaid Items	7,748	6,339	14,087
Total Current Assets	<u>559,021</u>	<u>535,150</u>	<u>1,094,171</u>
Noncurrent Assets:			
Restricted Assets:			
Investments with Fiscal Agent	174,014	0	174,014
Deferred Charges	1,213	0	1,213
Nondepreciable Capital Assets	2,596,098	2,120,564	4,716,662
Depreciable Capital Assets, Net	295,752	2,540,115	2,835,867
Total Noncurrent Assets	<u>3,067,077</u>	<u>4,660,679</u>	<u>7,727,756</u>
Total Assets	<u>3,626,098</u>	<u>5,195,829</u>	<u>8,821,927</u>
<b>LIABILITIES:</b>			
Current Liabilities:			
Accounts Payable	2,281	7,839	10,120
Accrued Wages	3,149	2,998	6,147
Intergovernmental Payable	7,000	5,223	12,223
Compensated Absences Payable	9,363	8,855	18,218
Water Revenue Bonds Payable	100,000	0	100,000
OWDA Loans Payable	63,516	0	63,516
Accrued Interest Payable	24,152	0	24,152
Total Current Liabilities	<u>209,461</u>	<u>24,915</u>	<u>234,376</u>
Long-term Liabilities:			
Compensated Absences Payable	5,498	4,899	10,397
OWDA Loans Payable	1,603,635	0	1,603,635
Water Revenue Bonds Payable	103,943	0	103,943
Total Long-term Liabilities	<u>1,713,076</u>	<u>4,899</u>	<u>1,717,975</u>
Total Liabilities	<u>1,922,537</u>	<u>29,814</u>	<u>1,952,351</u>
<b>NET ASSETS:</b>			
Invested in Capital Assets, Net of Related Debt	1,021,969	4,660,679	5,682,648
Restricted for:			
Revenue Bonds Future Debt Service	173,879	0	173,879
Unrestricted	507,713	505,336	1,013,049
Total Net Assets	<u>\$1,703,561</u>	<u>\$5,166,015</u>	<u>\$6,869,576</u>

See accompanying notes to the basic financial statements

**LAKENGREN WATER AUTHORITY**  
Statement of Revenues, Expenses, and Changes in Net Assets  
Enterprise Funds and Total Business-Type Activities  
For the Nine Months Ended December 31, 2006

	<u>Business-Type Activities - Enterprise Funds</u>		
	<u>WATER</u>	<u>SEWER</u>	<u>TOTAL</u>
<b>OPERATING REVENUES:</b>			
Charges for Services	\$558,516	\$421,422	\$979,938
Other	10,052	5,582	15,634
Total Operating Revenues	<u>568,568</u>	<u>427,004</u>	<u>995,572</u>
<b>OPERATING EXPENSES:</b>			
Personal Services and Fringe Benefits	171,808	153,114	324,922
Operations and Maintenance	22,094	27,984	50,078
Contractual Services	91,749	47,636	139,385
Supplies and Materials	29,258	30,739	59,997
Utilities	26,417	41,904	68,321
Depreciation	21,878	104,900	126,778
Other	326	290	616
Total Operating Expenses	<u>363,530</u>	<u>406,567</u>	<u>770,097</u>
Operating Income	<u>205,038</u>	<u>20,437</u>	<u>225,475</u>
<b>NON-OPERATING REVENUES (EXPENSES):</b>			
Interest	17,683	5,508	23,191
Interest and Fiscal Charges	(17,515)	0	(17,515)
Total Non-Operating Revenues (Expenses)	<u>168</u>	<u>5,508</u>	<u>5,676</u>
Change in Net Assets	205,206	25,945	231,151
Net Assets March 31, 2006 (Note 1)	<u>1,498,355</u>	<u>5,140,070</u>	<u>6,638,425</u>
Net Assets December 31, 2006	<u>\$1,703,561</u>	<u>\$5,166,015</u>	<u>\$6,869,576</u>

See accompanying notes to the basic financial statements

**LAKENGREN WATER AUTHORITY**  
Statement of Cash Flows  
Enterprise Funds and Total Business-Type Activities  
For the Nine Months Ended December 31, 2006

	Business-Type Activities - Enterprise Funds		
	WATER	SEWER	TOTAL
<b>INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>			
Cash Flows from Operating Activities:			
Cash Received from Customers	\$537,194	\$328,291	\$865,485
Cash Payments for Employee Services and Benefits	(187,490)	(161,574)	(349,064)
Cash Payments to Suppliers for Goods and Services	(269,554)	(86,593)	(356,147)
Cash Payments for Operations and Maintenance	(22,094)	(27,984)	(50,078)
Other Operating Revenues	10,052	5,582	15,634
Other Operating Expenses	(326)	(290)	(616)
Net Cash Provided by Operating Activities	<u>67,782</u>	<u>57,432</u>	<u>125,214</u>
Cash Flows from Capital and Related Financing Activities:			
Acquisition of Capital Assets	(52,075)	0	(52,075)
Proceeds from OWDA Loan	146,415	0	146,415
Interest Paid on Mortgage Revenue Bonds	(4,315)	0	(4,315)
Net Cash Provided by Capital and Related Financing Activities	<u>90,025</u>	<u>0</u>	<u>90,025</u>
Cash Flows from Investing Activities:			
Interest	15,563	1,696	17,259
Net Increase in Cash and Cash Equivalents	173,370	59,128	232,498
Cash and Cash Equivalents March 31, 2006 (Restated)	<u>458,866</u>	<u>261,743</u>	<u>720,609</u>
Cash and Cash Equivalents December 31, 2006	<u><u>\$632,236</u></u>	<u><u>\$320,871</u></u>	<u><u>\$953,107</u></u>
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>			
Operating Income	\$205,038	\$20,437	\$225,475
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities			
Depreciation	21,878	104,900	126,778
Changes in Assets and Liabilities:			
Increase in Accounts Receivable	(21,322)	(93,131)	(114,453)
Decrease in Materials and Supplies Inventory	7,535	22,109	29,644
Decrease in Prepaids Items	4,997	523	5,520
Increase (Decrease) in Accounts Payable	(11,300)	4,715	(6,585)
Decrease in Accrued Wages Payable	(3,627)	(2,184)	(5,811)
Decrease in Retainage Payable	(67,190)	0	(67,190)
Decrease in Contracts Payable	(63,920)	0	(63,920)
Increase in Intergovernmental Payable	148	1,534	1,682
Decrease in Compensated Absences Payable	(4,455)	(1,471)	(5,926)
Net Cash Provided by Operating Activities	<u>\$67,782</u>	<u>\$57,432</u>	<u>\$125,214</u>

On September 1, 1998, the Water Authority issued \$845,000 in revenue bonds. \$34,000 in bond issuance costs related to these bonds were recorded as deferred charges and are being amortized over the debt repayment period.

See accompanying notes to the basic financial statements



**LAKENGREN WATER AUTHORITY**  
Preble County, Ohio  
Notes to the Basic Financial Statements  
For the Nine Months Ended December 31, 2006

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**NOTE 1 - REPORTING ENTITY**

The Lakengren Water Authority (the “Water Authority”) was organized in 1989 under the provisions of Chapter 6119 of the Ohio Revised Code (ORC) by the Common Pleas Court of Preble County, Ohio, for the purpose of operating a potable water production and distribution system for the Lakengren community. In 1998, the Water Authority assumed operation of a wastewater collection and treatment system, previously operated by Preble County. The Board of Trustees is responsible for the fiscal control of the assets and the operating funds of the Water Authority. Beginning in fiscal year 2006, the Water Authority changed its year end to December 31, from March 31; therefore, fiscal period 2006 includes the nine months of activity of the Water Authority from April 1, 2006 through December 31, 2006.

The Water Authority operates under a three member Board of Trustees who are appointed by the Lakengren Property Owners Association for three year terms. All members are full-time resident property owners in the Lakengren community. The Water Authority is a body politic and corporate established with the rights and privileges conveyed to it by the constitution and laws of the State of Ohio.

The reporting entity is comprised of the stand-alone government, component units and other organizations that are included to ensure that the financial statements of the Water Authority are not misleading. The stand-alone government consists of all departments, boards and agencies that are not legally separate from the Water Authority.

Component units are legally separate organizations for which the Water Authority is financially accountable. The Water Authority is financially accountable for an organization if the Water Authority appoints a voting majority of the organization's governing board and (1) the Water Authority is able to significantly influence the programs or services performed or provided by the organization; or (2) the Water Authority is legally entitled to or can otherwise access the organization's resources; is legally obligated or has otherwise assumed the responsibility to finance deficits of or provide financial support to the organization; or is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the Water Authority in that the Water Authority approves their budget, the issuance of their debt or the levying of their taxes. The Water Authority has no component units.

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of the Lakengren Water Authority have been prepared in conformity with accounting principles generally accepted (GAAP) in the United States of America as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Water Authority also applies Financial Accounting Standards Board (FASB) Statements and Interpretations issued on or before November 30, 1989, provided they do not conflict with or contradict GASB pronouncements. The Water Authority has elected not to apply FASB Statements and Interpretations issued after November 30, 1989 to its proprietary activities. The more significant of the Water Authority's accounting policies are described below.

**LAKENGREN WATER AUTHORITY**  
Preble County, Ohio  
Notes to the Basic Financial Statements  
For the Nine Months Ended December 31, 2006

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**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)

**A. Basis of Presentation**

The Lakengren Water Authority's basic financial statements consist of a Statement of Net Assets, a Statement of Revenues, Expenses and Changes in Net Assets and a Statement of Cash Flows.

A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts.

Enterprise fund reporting focuses on the determination of the change in net assets, financial position and cash flows. An enterprise fund may be used to account for any activity for which a fee is charged to external users for goods or services.

For GAAP reporting purposes, the activities of the enterprise fund are separated into the following two funds that reflect the activity of the Water Authority:

Water Fund – This fund is used to account for the provision of water treatment and distribution to residential users in the community.

Sewer Fund – This fund is used to account for the provision of sanitary sewer service to residential users in the community.

**B. Measurement Focus**

The accounting and financial reporting treatment of an entity's financial transactions is determined by the entity's measurement focus. The enterprise activities are accounted for using a flow of economic resources measurement focus. All assets and all liabilities associated with the operation of the Water Authority are included on the Statement of Net Assets. The Statement of Revenues, Expenses, and Changes in Net Assets presents increases (i.e., revenues) and decreases (i.e., expenses) in total net assets. The Statement of Cash Flows provides information about how the Water Authority finances and meets the cash flow needs of its enterprise activities.

**C. Basis of Accounting**

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. The Water Authority's financial statements are prepared using the accrual basis of accounting.

Revenue is recorded on the accrual basis when the exchange takes place. Expenses are recognized at the time they are incurred.

**LAKENGREN WATER AUTHORITY**  
Preble County, Ohio  
Notes to the Basic Financial Statements  
For the Nine Months Ended December 31, 2006

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**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)

**D. Cash and Cash Equivalents**

To improve cash management, cash received by the Water Authority is pooled. Monies for both funds are maintained in this pool. Interest in the pool is presented as “Equity in Pooled Cash and Cash Equivalents” on the financial statements. The Water Authority uses a financial institution to service bonded debt as principal and interest payments come due. The balances in the accounts held by these financial institutions are presented on the Statement of Net Assets as “Restricted Assets: Investments with Fiscal Agent”.

During the year, investments were limited to nonnegotiable certificates of deposit, which are reported at cost, and the First American Treasury Obligation Money Market Mutual Fund, which is reported at fair value.

Investments of the cash management pool and investments with an original maturity of three months or less at the time they are purchased by the Water Authority are presented on the financial statements as cash and cash equivalents.

**E. Budgetary Process**

The Ohio Revised Code requires the Water Authority to budget annually. The Water Authority budgets on a GAAP basis for revenues and expenses and also includes non-GAAP expenditures such as capital outlay and debt service principal retirement.

*Appropriations*

Budgetary expenditures (that is, expenses and encumbrances) may not exceed appropriations at the legal level of control, which has been established by the Board at the line item level and appropriations may not exceed estimated resources. The Board must annually approve appropriation measures and subsequent amendments. The County Budget Commission is not required to approve the annual appropriation measure. Unencumbered appropriations lapse at year-end.

*Estimated Resources*

Estimated resources include estimates of revenue to be earned and restricted and unrestricted net assets as of April 1. The County Budget Commission is not required to approve estimated resources.

**LAKENGREN WATER AUTHORITY**  
Preble County, Ohio  
Notes to the Basic Financial Statements  
For the Nine Months Ended December 31, 2006

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**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)

*Encumbrances*

As part of formal budgetary control, purchase orders, contracts, and other commitments for the expenditure of funds are recorded in order to reserve the portion of the applicable appropriation. At the close of each year, the unencumbered balance of each appropriation reverts to the respective fund from which it was appropriated and becomes subject to future appropriations. The encumbered appropriation balance is carried forward to the succeeding year and need not be reappropriated. The Water Authority had no outstanding encumbrances at December 31, 2006.

A summary of budgetary activity for the period ended December 31, 2006 appears in Note 3.

**F. Inventory**

Inventories, which consist primarily of chemicals for treatment and repair parts, are presented at lower of cost or market, on a first-in, first-out basis and are expensed when used.

**G. Prepaid Items**

Payments made to vendors for services that will benefit periods beyond December 31, 2006 are recorded as prepaid items using the consumption method by recording a current asset for the prepaid amount and reflecting the expense in the year in which services are consumed.

**H. Restricted Assets**

Assets are reported as restricted when limitations on their use change the nature or normal understanding of the availability of the asset. Such constraints are either externally imposed by creditors, contributors, grantors, or laws of other governments, or are imposed by law through constitutional provisions or enabling legislation. Restricted assets of the Water Authority represent investments with fiscal agents for repayment of debt service on revenue bonds that are required by the bond indenture to be held by a financial services corporation.

**I. Capital Assets**

Capital assets utilized by the Water Authority are reported on the Statement of Net Assets. All capital assets are capitalized at cost (or estimated historical cost which is determined by indexing the current replacement cost back to the year of acquisition) and are updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The Water Authority maintains a capitalization threshold of five thousand dollars. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

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**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)

All reported capital assets except for land, construction in progress and infrastructure are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

<u>Description</u>	<u>Estimated Lives</u>
Buildings	5-20 years
Vehicles	5 years
Equipment	7 years
Infrastructure	10-30 years

The Water Authority has chosen to apply the modified approach for reporting infrastructure assets. Under the modified approach the Water Authority has developed an asset management system that:

1. Keeps an up-to-date inventory of eligible infrastructure assets,
2. Performs a conditional assessment of those eligible infrastructure assets at least every three years using a consistent measurement scale, and,
3. Estimates each year the annual amount to maintain and preserve those assets at the condition level established and disclosed by the government.

The Water Authority documents that the eligible infrastructure assets are being maintained at a level equal to or above the condition level established by the Water Authority. Condition appraisals are performed on an annual basis for infrastructure assets in accordance with the Water Authority capital asset policy.

When using the modified approach, expenses to extend the life of infrastructure assets are charged to expense, while expenses that add to or improve infrastructure assets are capitalized.

**J. Deferred Charges**

Bond issuance costs are deferred and amortized over the term of the bonds using the straight-line method since the results are not significantly different from using the effective interest method.

**K. Gain on Advance Refunding**

An advance refunding resulting in the defeasance of debt generates an account gain calculated by comparing the reacquisition price and the net carrying amount of the old debt. This account gain is amortized as interest expense over the remaining life of the old debt or the life of the new debt, whichever is shorter, and is presented as a decrease of the face amount of the new debt.

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**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)

**L. Compensated Absences**

Vacation 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 Water Authority will compensate the employee for the benefits through paid time off or some other means. The Water Authority records a liability for all accumulated unused vacation leave when earned for all employees.

Sick leave benefits are accrued as a liability using the vesting method, and all employees are considered vested, as all employees are compensated for sick leave upon termination. Payment for sick leave at termination is limited to one fourth of the employee's accrued sick leave up to a maximum of thirty days. These amounts are recorded as "compensated absences payable" in the fund from which the employees who have accumulated unpaid leave are paid.

**M. Net Assets**

Net assets represent the difference 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. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Water Authority or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

The Water Authority applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available. The Water Fund had restricted net assets relative to those resources necessary to comply with covenants of bond financing agreements.

**N. Operating and Nonoperating Revenues and Expenses**

Operating revenues are those revenues that are generated directly from primary activities. For the Water Authority, these revenues are charges for services and miscellaneous reimbursements. Operating expenses are necessary costs incurred to provide the goods or services that are the primary activity of the Water Authority.

Nonoperating revenues are those revenues that are not generated directly from primary activities. For the Water Authority, this revenue is interest income. Nonoperating expenses are costs other than those necessary costs incurred to provide the goods or services that are the primary activity of the Water Authority.

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**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)

**O. Contributions of Capital**

Contributions of capital arise from outside contributions of capital assets or outside contributions of resources restricted to capital acquisition and construction. The Water Authority did not have any capital contributions during the nine months ended December 31, 2006.

**P. Estimates**

The preparation of the 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.

**NOTE 3 - BUDGETARY ACTIVITY**

Budgetary activity for December 31, 2006 follows:

Budgeted vs. Actual Revenues		
	Water	Sewer
Budgeted Revenues	\$386,186	\$333,508
Actual Revenues	586,251	432,512
Variance	\$200,065	\$99,004

  

Budgeted vs. Actual Expenses		
	Water	Sewer
Budgeted Expenses	\$395,973	\$426,102
Actual Expenses	381,045	406,567
Variance	\$14,928	\$19,535

**NOTE 4 - DEPOSITS AND INVESTMENTS**

The investment and deposit of the Water Authority's monies are governed by the Lakengren Water Authority Investment Policy. In accordance with these provisions, the Water Authority investments will conform to all applicable laws and regulations governing the investment of public monies, including Chapter 135 of the Ohio Revised Code. These State statutes classify monies held by the Water Authority 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 Water Authority Treasury, in commercial accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

**LAKENGREN WATER AUTHORITY**  
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**NOTE 4 - DEPOSITS AND INVESTMENTS** (continued)

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 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 pass book accounts.

Interim monies may be deposited or invested in notes, bonds or other obligations of the United State or any agency or instrumentality thereof, or in obligations of the State or any political subdivision thereof.

**A. Deposits**

Custodial credit risk for deposits is the risk that in the event of bank failure, the Water Authority will not be able to recover deposits or collateral securities that are in the possession of an outside party. At year-end, the carrying value of the Water Authority deposits was \$779,093. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of December 31, 2006, \$27,629 of the Water Authority's bank balance of \$227,629 was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institution.

The Water Authority has no deposit policy for custodial risk beyond the requirements of State statute. Ohio law requires that deposits be either insured or be protected by eligible securities pledged to and deposited either with the Water Authority or a qualified trustee by the financial institution as security for repayment, or by a collateral pool of eligible securities deposited with a qualified trustee and pledged to secure the repayment of all public monies deposited in the financial institution whose market value at all times shall be at least one hundred five percent of the deposits being secured.

**B. Investments**

As of December 31, 2006, the Water Authority had the following investment:

	<u>Fair Value</u>	<u>Maturity</u>
First American Treasury Obligation Money Market Mutual Fund	<u>\$174,014</u>	Average 90 Days



**LAKENGREN WATER AUTHORITY**  
 Preble County, Ohio  
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**NOTE 4 - DEPOSITS AND INVESTMENTS** (continued)

*Interest Rate Risk*

The Water Authority's investment policy follows State statute, which requires that an investment mature within five years from the date of purchase, unless matched to a specific obligation or debt of the Water Authority, and that an investment must be purchased with the expectation that it will be held to maturity.

*Credit Risk*

The First American Treasury Obligation Money Market Mutual Fund carries a rating of Aaa by Moody's. Ohio law requires that this fund be rated in the highest category at the time of purchase by at least one nationally recognized standard rating service. The Water Authority has no investment policy that addresses credit risk.

*Concentration of Credit Risk*

The Water Authority places no limit on the amount that may be invested in any one issuer.

**NOTE 5 - ACCOUNTS RECEIVABLE**

Accounts receivable represent monies due from residents for water usage and sewage treatment. No allowance for doubtful accounts has been recorded as all amounts are considered collectible. All receivables are expected to be collected within one year.

**NOTE 6 - LONG-TERM OBLIGATIONS**

Changes in long-term obligations during the nine months ended December 31, 2006 were as follows:

	Balance at March 31, 2006	Increase	Decrease	Balance at December 31, 2006	Amounts Due in One Year
Mortgage Revenue Bonds					
5.06% - 1998 - \$845,000	\$205,000	\$0	\$0	\$205,000	\$100,000
Deferred Amount on Refunding	(2,054)	0	(997)	(1,057)	0
OWDA Loan - 2.75% - 2005 - \$1,667,151	1,520,736	146,415	0	1,667,151	63,516
Compensated Absences Payable	34,541	20,715	26,641	28,615	18,218
Total Long-Term Obligations	<u>\$1,758,223</u>	<u>\$167,130</u>	<u>\$25,644</u>	<u>\$1,899,709</u>	<u>\$181,734</u>

**LAKENGREN WATER AUTHORITY**  
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**NOTE 6 - LONG-TERM OBLIGATIONS** (continued)

On September 1, 1998, the Water Authority sold an \$845,000 issue of revenue bonds with an average interest rate of 5.06 percent to advance refund \$960,000 of outstanding 1989 Series bonds with an average interest rate of 8.5 percent. As a result, the 1989 Series bonds are considered to be defeased and the liability for those bonds has been removed from the Water Authority's books and records. Similarly, as no obligation is recorded, neither are the funds held on deposit with the trustee, which will be used to service that obligation.

The Water Authority has an OWDA Loan outstanding at December 31, 2006. The total amount of the loan is \$1,667,151 and bears an interest rate of 2.75 percent with final maturity on July 1, 2026. The loan was issued for the construction of a new water treatment plant. The debt payments will be paid from the Water Fund.

Principal and interest requirements to retire the revenue bonds and the OWDA Loan outstanding at December 31, 2006 are:

Year ending December 31,	Revenue Bond Principal	Revenue Bond Interest	OWDA Loan Principal	OWDA Loan Interest
2007	\$100,000	\$8,137	\$63,516	\$45,413
2008	105,000	2,756	65,275	43,654
2009	0	0	67,082	41,846
2010	0	0	68,940	39,989
2011	0	0	70,849	38,080
2012-2016	0	0	384,781	159,868
2017-2021	0	0	441,082	103,563
2022-2026	0	0	505,626	39,020
Total	<u>\$205,000</u>	<u>\$10,893</u>	<u>\$1,667,151</u>	<u>\$511,433</u>

**LAKENGREN WATER AUTHORITY**  
Preble County, Ohio  
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**NOTE 7 - CAPITAL ASSETS**

Capital asset activity for the nine months ended December 31, 2006, was as follows:

	(Restated) Balance At March 31, 2006	Additions	Deletions	Balance At December 31, 2006
Capital Assets, Not Being Depreciated:				
Land	\$60,342	\$7,500	\$0	\$67,842
Construction in Progress	1,849,359	23,756	(1,873,115)	0
Infrastructure	2,775,705	1,873,115	0	4,648,820
Total Capital Assets Not Being Depreciated	<u>4,685,406</u>	<u>1,904,371</u>	<u>(1,873,115)</u>	<u>4,716,662</u>
Depreciable Capital Assets:				
Buildings	144,752	0	0	144,752
Vehicles	68,998	20,819	0	89,817
Equipment	165,319	0	0	165,319
Infrastructure	4,068,446	0	0	4,068,446
Total Depreciable Capital Assets	<u>4,447,515</u>	<u>20,819</u>	<u>0</u>	<u>4,468,334</u>
Less Accumulated Depreciation:				
Buildings	(67,716)	(5,512)	0	(73,228)
Vehicles	(46,102)	(9,051)	0	(55,153)
Equipment	(135,775)	(5,714)	0	(141,489)
Infrastructure	(1,256,096)	(106,501)	0	(1,362,597)
Total Accumulated Depreciation	<u>(1,505,689)</u>	<u>(126,778)</u>	<u>0</u>	<u>(1,632,467)</u>
Total Assets Being Depreciated, Net	<u>2,941,826</u>	<u>(105,959)</u>	<u>0</u>	<u>2,835,867</u>
Governmental Activities Capital Assets, Net	<u>\$7,627,232</u>	<u>\$1,798,412</u>	<u>(\$1,873,115)</u>	<u>\$7,552,529</u>

Certain capital assets have been restated to properly present the modified method for infrastructure assets as of April 1, 2006.

**LAKENGREN WATER AUTHORITY**  
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 For the Nine Months Ended December 31, 2006

**NOTE 8 - PRIOR PERIOD RESTATEMENT**

A prior period adjustment is necessary to restate cash and capital assets between the water and sewer funds in the amount of \$10,100. This resulted in no effect on net assets.

	Balance 3/31/06		Restated Balance 4/1/06
	<u>Cash</u>	<u>Adjustment</u>	<u>Cash</u>
Water	\$ 468,966	\$ (10,100)	\$ 458,866
Sewer	<u>251,643</u>	<u>10,100</u>	<u>261,743</u>
<b>Total</b>	<b><u>\$ 720,609</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 720,609</u></b>

  

	Balance 3/31/06		Restated Balance 4/1/06
	<u>Capital Assets</u>	<u>Adjustment</u>	<u>Capital Assets</u>
Water	\$ 2,851,553	\$ 10,100	\$ 2,861,653
Sewer	<u>4,775,679</u>	<u>(10,100)</u>	<u>4,765,579</u>
<b>Total</b>	<b><u>\$ 7,627,232</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 7,627,232</u></b>

**NOTE 9 - RISK MANAGEMENT**

The Water Authority 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. During the nine months ended December 31, 2006, the Water Authority contracted with the Arch Insurance Company for various types of insurance as follows:

<u>Coverage</u>	<u>Limit</u>	<u>Deductible</u>
Property	\$4,725,795	\$500
General Liability:		
Per Occasion	1,000,000	None
Aggregate	2,000,000	None
Public Officials	1,000,000	None
Electronic Data		
Processing	50,000	500
Systems Breakdown	500,000	None
Valuable Papers	100,000	500
Contractors Equipment	37,360	500

**LAKENGREN WATER AUTHORITY**  
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 For the Nine Months Ended December 31, 2006

**NOTE 9 - RISK MANAGEMENT** (continued)

<u>Coverage</u>	<u>Limit</u>	<u>Deductible</u>
Crime:		
Employee Dishonesty	100,000	500
Employee Theft	50,000	500
Money and Securities	25,000	500
Automobile:		
Liability	1,000,000	None
Comprehensive	Actual Cash Value	250
Collision	Actual Cash Value	500

Settled claims have not exceeded coverage in the past three years and there has been no significant reduction in coverages from last year.

The Water Authority pays the State Workers' Compensation System a premium based on a rate per \$100 of salaries. This rate is calculated based on accident history and administrative costs.

**NOTE 10 - OHIO PUBLIC EMPLOYEES RETIREMENT SYSTEM DEFINED BENEFIT PENSION PLAN**

The Water Authority 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 five years at 20 percent 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.

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, Ohio 43215-4642 or by calling (614) 222-5601 or 800-222-7377.

For the nine months ended December 31, 2006, the Water Authority's employees participated in the traditional plan and were required to contribute 9 percent of their annual covered salaries.

**LAKENGREN WATER AUTHORITY**  
Preble County, Ohio  
Notes to the Basic Financial Statements  
For the Nine Months Ended December 31, 2006

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**NOTE 10 - OHIO PUBLIC EMPLOYEES RETIREMENT SYSTEM DEFINED BENEFIT PENSION PLAN** (continued)

The Water Authority's contribution rate for pension benefits for 2006 was 9.2 percent. The Ohio Revised Code provides statutory authority for member and employer contributions.

The Water Authority's required contributions for pension obligations to the traditional and combined plans for the nine months ended December 31, 2006 and the fiscal years ended March 31, 2006 and 2005 were \$24,430, \$33,793, and \$32,649 respectively; 66.40 percent has been contributed for the nine months ended December 31, 2006 and 100 percent for fiscal years 2005 and 2004. There were no contributions to the member-directed plan for the nine months ended December 31, 2006.

**NOTE 11 - POSTEMPLOYMENT BENEFITS**

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 qualified survivor benefit 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, "Disclosure of Information on Postemployment Benefits other than Pension Benefits by State and Local Government Employers". 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 2006 local government employer contribution rate was 13.7 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 individual entry age actuarial cost method. Significant actuarial assumptions, based on OPERS's latest actuarial review performed as of December 31, 2006, include a rate of return on investments of 6.5 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 .50 and 6.00 percent annually for the next nine years and 4.0 percent annually after nine years.

All investments are carried at fair value. 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, not to exceed a 12 percent corridor.

The number of active contributing participants in the traditional and combined plans was 369,214 as of December 31, 2006. Actual Water Authority contributions for the nine months ended December 31, 2006, which were used to fund postemployment benefits were \$11,949. The actual contribution and the actuarially required contribution amounts are the same.

**LAKENGREN WATER AUTHORITY**  
Preble County, Ohio  
Notes to the Basic Financial Statements  
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**NOTE 11 - POSTEMPLOYMENT BENEFITS** (continued)

OPERS's net assets available for payment of benefits at December 31, 2005, (the latest information available) were \$11.1 billion. The actuarially accrued liability and the unfunded actuarial accrued liability were \$31.3 billion and \$20.2 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. To improve the solvency of the Health Care Fund, OPERS created a separate investment pool for health care assets. Member and employer contribution rates increased as of January 1, 2006, and January 1, 2007, which will allow additional funds to be allocated to the health care plan.

**NOTE 12 - OTHER EMPLOYEE BENEFITS**

**A. Insurance Benefits**

The Water Authority provides health insurance to employees through Medical Mutual of Ohio. The employees share the cost of the monthly premium with the Water Authority. The Water Authority also provides dental and vision insurance through Superior Dental and life insurance through Fort Dearborn Life Insurance.

**B. Compensated Absences**

*Accumulated Unpaid Vacation Leave*

The Water Authority's employees earn vacation leave based on length of service. Vacation leave must be used within 12 months of being earned. Water Authority employees are paid for earned, unused vacation leave at the time of termination.

*Accumulated Unpaid Sick Leave*

The Water Authority's employees earn .0575 hours of sick leave for each hour in active pay status. Employees may accrue and carry over all sick leave earned with no limits. Upon separation or retirement from the Water Authority, employees are paid for one-fourth of their accrued sick leave, up to a maximum payment of 30 days.

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 Preble County, Ohio  
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**NOTE 13 - LEASES**

The Water Authority entered into an operating lease with a property owner outside the Lakengren Subdivision for real property. The lease of the property allows for extracting water found in or under the leased property. The term of this lease commenced April 1, 2004 and remains in force for a primary term of 99 years, provided the Ohio EPA approves the leased premises as a well site and the well continues to produce clean, useable water in acceptable quantities. The lease payments for the nine months ended December 31, 2006 were \$588 a month through March 31, 2007. The monthly payments will increase by 3.3 percent to \$607 per month starting April 1, 2007. The monthly lease payments shall be adjusted annually to the government's published rate of inflation.

The estimated future minimum lease payments, at the current rate, as of December 31, 2006 are as follows:

Year Ending December 31,	Amount	Year Ending December 31,	Amount
2007	\$7,227	2052-5056	\$36,445
2008	7,289	2057-2061	36,445
2009	7,289	2062-2066	36,445
2010	7,289	2067-2071	36,445
2011	7,289	2072-2076	36,445
2012-2016	36,445	2077-2081	36,445
2017-2021	36,445	2082-2086	36,445
2022-2026	36,445	2087-2091	36,445
2027-2031	36,445	2092-2096	36,445
2032-2036	36,445	2097-2101	36,445
2037-2041	36,445	2102-2103	14,578
2042-2046	36,445	Total	<u>\$ 706,971</u>
2047-2051	36,445		

**NOTE 14 - CHANGE IN ACCOUNTING PRINCIPLE**

During fiscal year 2006, the Water Authority implemented *GASB Statement No. 47, "Accounting for Termination Benefits."* *GASB Statement No. 47* establishes accounting and financial reporting standards for termination benefits. This statement clarifies and establishes reporting requirements for those benefits provided by employers to employees as an incentive or settlement for voluntary early termination or as a consequence of the involuntary early termination of services. The implementation of this statement had no effect on the Water Authority's financial statements for fiscal year 2006.

Beginning in the nine months ended December 31, 2006 the Water Authority began using the modified approach to report infrastructure assets in both the Water and Sewer Funds which had no effect on beginning net assets.



**REQUIRED SUPPLEMENTARY INFORMATION**

**LAKENGREN WATER AUTHORITY**  
 Preble County, Ohio  
 Required Supplementary Information  
 Condition Assessment of the Infrastructure Reported  
 Under the Modified Approach  
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Lakengren Water Authority (the “Water Authority”) reports certain infrastructure assets using the modified approach as outlined in Governmental Accounting Standard Board (GASB) Statement No. 34 beginning in the nine months ended December 31, 2006. The following disclosures pertain to the conditional assessment and budgeted versus actual expenses for the preservation of these assets. The conditional assessment is presented in each of the following sections for the nine months ended December 31, 2006.

All infrastructure asset conditions are evaluated and rated based on the following criteria:

Rating of Asset	Condition	Description
1	Excellent	Basically sound, new equipment requiring no work
2	Good	Acceptable; minor wear; requires little work
3	Fair	Showing wear but functionally sound. Rehab needed soon to avoid progression to rating 4.
4	Poor	Function, but with a high degree of maintenance. Major work required.
5	Awful	Asset has failed or will fail imminently

**A. Water Fund**

*Wells*

Wells include production and monitoring wells. The Water Authority’s policy states that all wells will be maintained at level two or higher. The following is a summary of the conditional assessment for the wells:

Well Condition	Number of Wells	Percent of Total
1 - Excellent	3	38%
2 - Good	5	62%
Total	8	100%

**LAKENGREN WATER AUTHORITY**  
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 Required Supplementary Information  
 Condition Assessment of the Infrastructure Reported  
 Under the Modified Approach  
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The following is a comparison of the Water Authority's budgeted and actual expenses for maintaining the wells:

<u>Nine Months Ended</u>	<u>Budgeted Expenses</u>	<u>Actual Expenses</u>	<u>Difference</u>
12/31/2006	\$2,300	\$1,990	\$310

*Treatment Plant*

The Water Authority has one water treatment plant that is rated at a level 1. The Water Authority's policy is to maintain the water treatment plant at a level 3 or higher. The following is a comparison of the Water Authority's budgeted and actual expenses for maintaining the water treatment plant:

<u>Nine Months Ended</u>	<u>Budgeted Expenses</u>	<u>Actual Expenses</u>	<u>Difference</u>
12/31/2006	\$4,581	\$2,330	\$2,251

*Generator*

The Water Authority has one stand-by generator that is rated at a level 1. The Water Authority's policy is to maintain the generator at a level two or higher. The following is a comparison of the Water Authority's budgeted and actual expenses for maintaining the generator:

<u>Nine Months Ended</u>	<u>Budgeted Expenses</u>	<u>Actual Expenses</u>	<u>Difference</u>
12/31/2006	\$600	\$648	(\$48)

*Control Panel*

The Water Authority has one control panel that is rated at a level 1. The Water Authority's policy is to maintain the control panel at a level two or higher. The following is a comparison of the Water Authority's budgeted and actual expenses for maintaining the control panel:

<u>Nine Months Ended</u>	<u>Budgeted Expenses</u>	<u>Actual Expenses</u>	<u>Difference</u>
12/31/2006	\$150	\$164	(\$14)

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*Meters*

The Water Authority has 1,357 water meters. The Water Authority's policy states that 80 percent of all water meters will be maintained at level two or higher. The following is a summary of the conditional assessment for the meters:

Meter Condition	Number of Wells	Percent of Total
2 - Good	1,356	99%
3 - Fair	1	1%
Total	1,357	100%

The following is a comparison of the Water Authority's budgeted and actual expenses for maintaining the water meters:

Nine Months Ended	Budgeted Expenses	Actual Expenses	Difference
12/31/2006	\$3,500	\$2,845	\$655

*Water Towers*

The Water Authority has two water towers and both are rated at level two. The Water Authority's policy is to maintain the water towers at a level two or higher. The following is a comparison of the Water Authority's budgeted and actual expenses for maintaining the water towers:

Nine Months Ended	Budgeted Expenses	Actual Expenses	Difference
12/31/2006	\$7,151	\$7,132	\$19

*Shutoff Valves*

The Water Authority has 175 water shutoff valves. The Water Authority's policy states that 80 percent of all shutoff valves will be maintained at level two or higher. The following is a summary of the conditional assessment for the shutoff valves:

Shutoff Valves Condition	Number of Shutoff Valves	Percent of Total
1 - Excellent	157	90%
2 - Good	14	8%
3 - Fair	4	2%
Total	175	100%

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The following is a comparison of the Water Authority's budgeted and actual expenses for maintaining the shutoff valves:

<u>Nine Months Ended</u>	<u>Budgeted Expenses</u>	<u>Actual Expenses</u>	<u>Difference</u>
12/31/2006	\$3,100	\$5,986	(\$2,886)

*Hydrants*

The Water Authority has 118 hydrants consisting of fire and flushing hydrants, and all are rated at a level two. The Water Authority's policy states that 80 percent of all hydrants will be maintained at level two or higher.

The following is a comparison of the Water Authority's budgeted and actual expenses for maintaining the hydrants:

<u>Nine Months Ended</u>	<u>Budgeted Expenses</u>	<u>Actual Expenses</u>	<u>Difference</u>
12/31/2006	\$600	\$549	\$51

**B. Sewer Fund**

*Manholes*

The Water Authority has 465 manholes. The Water Authority's policy states that 80 percent of all manholes will be maintained at level two or higher. The following is a summary of the conditional assessment for the manholes:

<u>Manholes Condition</u>	<u>Number of Wells</u>	<u>Percent of Total</u>
1 - Excellent	1	1%
2 - Good	465	99%
Total	<u>466</u>	<u>100%</u>

The following is a comparison of the Water Authority's budgeted and actual expenses for maintaining the manholes:

<u>Nine Months Ended</u>	<u>Budgeted Expenses</u>	<u>Actual Expenses</u>	<u>Difference</u>
12/31/2006	\$1,000	\$1,170	(\$170)

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*Lift Stations*

The Water Authority has 4 lift stations and all are rated at a level two. The Water Authority's policy states that 80 percent of all lift stations will be maintained at level two or higher. The following is a comparison of the Water Authority's budgeted and actual expenses for maintaining the lift stations:

<u>Nine Months Ended</u>	<u>Budgeted Expenses</u>	<u>Actual Expenses</u>	<u>Difference</u>
12/31/2006	\$16,000	\$1,669	\$14,331

*Grinder Pumps*

The Water Authority has 131 grinder pumps. The Water Authority's policy states that 80 percent of all grinder pumps will be maintained at level two or higher.

The following is a summary of the conditional assessment for the grinder pumps:

<u>Grinder Pump Condition</u>	<u>Number of Shutoff Valves</u>	<u>Percent of Total</u>
2 - Good	77	59%
3 - Fair	45	34%
4 - Poor	9	7%
Total	131	100%

The following is a comparison of the Water Authority's budgeted and actual expenses for maintaining the grinder pumps:

<u>Nine Months Ended</u>	<u>Budgeted Expenses</u>	<u>Actual Expenses</u>	<u>Difference</u>
12/31/2006	\$34,100	\$23,052	\$11,048

*Basins*

The Water Authority has two basins and both are rated at a level two. The Water Authority's policy states that the two basins will be maintained at level two or higher. The following is a comparison of the Water Authority's budgeted and actual expenses for maintaining the basins:

<u>Nine Months Ended</u>	<u>Budgeted Expenses</u>	<u>Actual Expenses</u>	<u>Difference</u>
12/31/2006	\$800	\$0	\$800

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*Aerators*

The Water Authority has five aerators, consisting of tornado and overhead aerators and all are rated at a level two. The Water Authority's policy states that 80 percent of all aerators will be maintained at level two or higher. The following is a comparison of the Water Authority's budgeted and actual expenses for maintaining the aerators:

<u>Nine Months Ended</u>	<u>Budgeted Expenses</u>	<u>Actual Expenses</u>	<u>Difference</u>
12/31/2006	\$4,500	\$3,792	\$708

*Downdraft Mixer*

The Water Authority has a downdraft mixer that is rated at a level two. The Water Authority's policy states that the downdraft mixer will be maintained at level two or higher. The following is a comparison of the Water Authority's budgeted and actual expenses for maintaining the downdraft mixer:

<u>Nine Months Ended</u>	<u>Budgeted Expenses</u>	<u>Actual Expenses</u>	<u>Difference</u>
12/31/2006	\$400	\$311	\$89

*Clarifiers*

The Water Authority has four clarifiers that are rated at a level two. The Water Authority's policy states that the clarifiers will be maintained at level two or higher. The following is a comparison of the Water Authority's budgeted and actual expenses for maintaining the clarifiers:

<u>Nine Months Ended</u>	<u>Budgeted Expenses</u>	<u>Actual Expenses</u>	<u>Difference</u>
12/31/2006	\$1,000	\$0	\$1,000

*RBC Units*

The Water Authority has two RBC units that are rated at a level two. The Water Authority's policy states that the RBC Units will be maintained at level two or higher. The following is a comparison of the Water Authority's budgeted and actual expenses for maintaining the RBC Units:

<u>Nine Months Ended</u>	<u>Budgeted Expenses</u>	<u>Actual Expenses</u>	<u>Difference</u>
12/31/2006	\$800	\$0	\$800

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*UV Lights*

The Water Authority has a set of UV lights that is rated at a level two. The Water Authority's policy states that the UV lights will be maintained at level two or higher. The following is a comparison of the Water Authority's budgeted and actual expenses for maintaining the UV lights:

<u>Nine Months Ended</u>	<u>Budgeted Expenses</u>	<u>Actual Expenses</u>	<u>Difference</u>
12/31/2006	\$800	\$0	\$800

*Drying Beds*

The Water Authority has four drying beds that are rated at a level two. The Water Authority's policy states that the drying beds will be maintained at level two or higher. The following is a comparison of the Water Authority's budgeted and actual expenses for maintaining the drying beds:

<u>Nine Months Ended</u>	<u>Budgeted Expenses</u>	<u>Actual Expenses</u>	<u>Difference</u>
12/31/2006	\$800	\$0	\$800

*Wastewater Treatment Plant*

The Water Authority has a wastewater treatment plant that is rated at a level two. The Water Authority's policy states that the wastewater treatment plant will be maintained at level two or higher. The following is a comparison of the Water Authority's budgeted and actual expenses for maintaining the wastewater treatment plant:

<u>Nine Months Ended</u>	<u>Budgeted Expenses</u>	<u>Actual Expenses</u>	<u>Difference</u>
12/31/2006	\$7,250	\$6,179	\$1,071



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*Blower and Polymer Building*

The Water Authority has a Blower and Polymer Building that is rated at a level two. The Water Authority's policy states that the Blower and Polymer Building will be maintained at level two or higher. The following is a comparison of the Water Authority's budgeted and actual expenses for maintaining the Blower and Polymer Building:

<u>Nine Months Ended</u>	<u>Budgeted Expenses</u>	<u>Actual Expenses</u>	<u>Difference</u>
12/31/2006	\$4,000	\$4,311	(\$311)



**Julian & Grube, Inc.**  
*Serving Ohio Local Governments*

333 County Line Rd. West, Westerville, OH 43082 Phone: 614.846.1899 Fax: 614.846.2799

**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***

Board of Trustees  
Lakengren Water Authority  
209 Lakengren Drive West  
Eaton, OH 45320-2858

We have audited the business-type activities and each major enterprise fund of the Lakengren Water Authority, Preble County, as of and for the nine months ended December 31, 2006, which collectively comprise the Lakengren Water Authority's basic financial statements and have issued our report thereon dated October 22, 2007 in which we noted the financial statements present nine months of activity due to a change in fiscal year end and capital assets have been restated to reflect the modified approach for infrastructure. 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

In planning and performing our audit, we considered the Lakengren Water Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Lakengren Water Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Lakengren Water Authority'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 the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Lakengren Water Authority's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Lakengren Water Authority's financial statements that is more than inconsequential will not be prevented or detected by the Lakengren Water Authority's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Lakengren Water Authority's internal control.

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 deficiencies in the internal control that might be 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.

Board of Trustees  
Lakengren Water Authority

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Lakengren Water Authority'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*.

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

A handwritten signature in cursive script that reads "Julian & Grube, Inc.".

Julian & Grube, Inc.  
October 22, 2007

**LAKENGREN WATER AUTHORITY  
PREBLE COUNTY, OHIO  
DECEMBER 31, 2006**

**SCHEDULE OF PRIOR AUDIT FINDINGS**

<b>Finding Number</b>	<b>Finding Summary</b>	<b>Fully Corrected?</b>	<b>Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain:</b>
2006-LWA-001	Ohio Revised Code Section 5705.41(D) requires that no orders or contracts involving the disbursements of monies are to be made unless there is a certificate of the fiscal officer that the amount required for the order or contract has been lawfully appropriated.	Yes	N/A



**Mary Taylor, CPA**  
Auditor of State

**LAKENGREN WATER AUTHORITY**

**PREBLE 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  
NOVEMBER 20, 2007**