



Dave Yost • Auditor of State



# OHIO AUDITOR OF STATE KEITH FABER



January 15, 2019

The attached audit report was completed and prepared for release prior to the commencement of my term of office on January 14, 2019. Reports completed prior to that date contain the signature of my predecessor.

Ohio Auditor of State

A handwritten signature in cursive script that reads "Keith Faber".

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**LAKENGREN WATER AUTHORITY  
PREBLE COUNTY  
DECEMBER 31, 2017**

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# Dave Yost • Auditor of State

## INDEPENDENT AUDITOR'S REPORT

Lakengren Water Authority  
Preble County  
24 Lakengren Drive  
Eaton, Ohio 45320

To the Board of Trustees:

### ***Report on the Financial Statements***

We have audited the accompanying financial statements of the business-type activities and each major fund of Lakengren Water Authority, Preble County, Ohio (the Authority), as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for preparing and fairly presenting these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes designing, implementing, and maintaining internal control relevant to preparing and fairly presenting financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditor's Responsibility***

Our responsibility is to opine on these financial statements based on our audit. We audited in accordance with auditing standards generally accepted in the United States of America and the financial audit standards in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require us to plan and perform the audit to reasonably assure the financial statements are free from material misstatement.

An audit requires obtaining evidence about financial statement amounts and disclosures. The procedures selected depend on our judgment, including assessing the risks of material financial statement misstatement, whether due to fraud or error. In assessing those risks, we consider internal control relevant to the Authority's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not to the extent needed to opine on the effectiveness of the Authority's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of the overall financial statement presentation.

We believe the audit evidence we obtained is sufficient and appropriate to support our audit opinions.

**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and each major fund of Lakengren Water Authority, Preble County, Ohio, as of December 31, 2017, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

**Other Matters**

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require this presentation to include management's discussion and analysis, schedules for infrastructure assets accounted for using the modified approach, and schedules of net pension liabilities and pension contributions listed in the table of contents, to supplement the basic financial statements. Although this information is not part of the basic financial statements, the Governmental Accounting Standards Board considers it essential for placing the basic financial statements in an appropriate operational, economic, or historical context. We applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, consisting of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, to the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not opine or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to opine or provide any other assurance.

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated December 13, 2018, on our consideration of the Authority'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. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.



**Dave Yost**  
Auditor of State  
Columbus, Ohio

December 13, 2018



**Lakengren Water Authority  
Preble County, Ohio**

Management's Discussion and Analysis  
For the Year Ended December 31, 2017  
(Unaudited)

The management's discussion and analysis of the Lakengren Water Authority's (the "Water Authority") financial performance provides an overall review of the Water Authority's financial activities for the year ended December 31, 2017. 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 notes to the basic financial statements and financial statements to enhance their understanding of the Water Authority's financial performance.

**Financial Highlights**

Key financial highlights for 2017 are as follows:

- In total, net position was \$7,307,429 at December 31, 2017 which represents a 0.86% decrease from December 31, 2016. Water fund net position was \$3,399,345 and sewer fund net position was \$3,908,084 at December 31, 2017.
- The Water Authority had operating revenues of \$1,197,204, operating expenses of \$1,233,898, nonoperating revenues of \$285 and nonoperating expenses of \$27,320 for 2017. Total change in net position for the year was a decrease of \$63,729.

**Using this Financial Report**

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the Water Authority's financial activities. The statement of net position and statement of revenues, expenses and changes in net position provide information about the activities of the Water Authority, including all short-term and long-term financial resources and obligations.

**Reporting the Water Authority's Financial Activities**

Statement of Net Position, Statement of Revenues, Expenses, and Changes in Net Position and the Statement of Cash Flows.

These documents look at all financial transactions and ask the question, "How did we do financially during 2017?" The statement of net position and the statement of revenues, expenses and changes in net position answer this question. These statements include all assets, liabilities, deferred outflows of resources, and deferred inflows of resources, revenues and expenses using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting will take into account all of the current year's revenues and expenses regardless of when cash is received or paid.

These two statements report the Water Authority's net position and changes in those positions. This change in net position is important because it tells the reader that, for the Water Authority as a whole, the financial position of the Water Authority has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. These statements can be found on pages 9 and 10 of this report.

**Lakengren Water Authority  
Preble County, Ohio**

Management's Discussion and Analysis  
For the Year Ended December 31, 2017  
(Unaudited)

The Statement of Cash Flows provides information about how the Water Authority finances and meets the cash flow needs of its operations. The statement of cash flows can be found on page 11 of this report.

The notes provide additional information that is essential to a full understanding of the data provided in the financial statements. These notes to the basic financial statements can be found on pages 12-30 of this report.

In addition to the basic financial statements and accompanying notes, this report also presents required supplementary information concerning the Water Authority's net pension liability and the Water Authority's condition assessment of the infrastructure reported under the modified approach. The required supplementary information can be found on pages 31-46 of this report.

The table below provides a summary of the Water Authority's net position at December 31, 2017 and December 31, 2016.

Net Position

	<u>2017</u>	<u>2016</u>
<u>Assets:</u>		
Current and other assets	\$ 1,437,137	\$ 1,562,564
Noncurrent assets	2,124	8,096
Nondepreciable capital assets	5,333,694	5,117,783
Capital assets, net of depreciation	<u>1,962,000</u>	<u>2,133,995</u>
Total assets	<u>8,734,955</u>	<u>8,822,438</u>
<u>Deferred outflows of resources:</u>		
Pension	<u>254,203</u>	<u>193,683</u>
<u>Liabilities:</u>		
Current and other liabilities	101,143	58,929
Long-term liabilities:		
Due within one year	110,289	179,521
Due in more than one year:		
Net pension liability	658,541	505,261
Other amounts	<u>804,337</u>	<u>887,670</u>
Total liabilities	<u>1,674,310</u>	<u>1,631,381</u>
<u>Deferred inflows of resources:</u>		
Pension	<u>7,419</u>	<u>13,582</u>
<u>Net Position:</u>		
Net investment in capital assets	6,432,451	6,230,071
Restricted	2,124	8,096
Unrestricted	<u>872,854</u>	<u>1,132,991</u>
Total net position	<u>\$ 7,307,429</u>	<u>\$ 7,371,158</u>

**Lakengren Water Authority**  
**Preble County, Ohio**

Management's Discussion and Analysis  
For the Year Ended December 31, 2017  
(Unaudited)

Over time, net position can serve as a useful indicator of a government's financial position. At December 31, 2017, the Water Authority's net position totaled \$7,307,429. Total net position decreased 0.86% from December 31, 2016.

At year-end, capital assets represented 83.5% of total assets. Capital assets consist of land, construction in progress, nondepreciable infrastructure, buildings, vehicles, equipment and depreciable infrastructure. Capital assets, net of related debt to acquire the assets at December 31, 2017 were \$6,432,451.

The table below shows the changes in net position for 2017 and 2016.

	<u>2017</u>	<u>2016</u>
<u>Change in Net Position</u>		
<u>Operating revenues:</u>		
Charges for services	\$ 1,183,257	\$ 1,134,913
Other revenues	13,947	6,923
Total operating revenues	<u>1,197,204</u>	<u>1,141,836</u>
<u>Operating expenses:</u>		
Personal services	655,797	574,006
Operations and maintenance	181,442	139,879
Contractual services	94,285	98,671
Supplies and materials	25,227	26,331
Utilities	87,907	88,643
Depreciation	171,995	169,545
Other	17,245	24,113
Total operating expenses	<u>1,233,898</u>	<u>1,121,188</u>
Operating income (loss)	<u>(36,694)</u>	<u>20,648</u>
<u>Nonoperating revenues (expenses):</u>		
Interest income	285	314
Loss on sale of capital assets	-	(4,283)
Interest and fiscal charges	(27,320)	(32,138)
Total nonoperating revenues (expenses)	<u>(27,035)</u>	<u>(36,107)</u>
Loss before transfers	<u>(63,729)</u>	<u>(15,459)</u>
<u>Other revenues (expenses)</u>		
Transfers in	61	-
Transfers out	(61)	-
Total other revenues (expenses)	<u>-</u>	<u>-</u>
Decrease in net position	<u>(63,729)</u>	<u>(15,459)</u>
Net position at beginning of year	<u>7,371,158</u>	<u>7,386,617</u>
Net position at end of year	<u>\$ 7,307,429</u>	<u>\$ 7,371,158</u>

**Lakengren Water Authority  
Preble County, Ohio**

Management's Discussion and Analysis  
For the Year Ended December 31, 2017  
(Unaudited)

Operating revenues of the Water Authority increased \$55,368 or 4.85% due mainly to an increase in charges for services. Operating expenses of the Water Authority increased \$112,710 or 10.05% mainly in the area of personal services due to the net pension liability and operations and maintenance.

The Water Authority's statement of net position prepared on an accrual basis of accounting reports an annual pension expense for their proportionate share of each plan's change in net pension liability not accounted for as deferred inflows/outflows. The Water Authority is also reporting net pension liability and deferred inflows/outflows of resources related to pension on the accrual basis of accounting in the statement of net position.

In a prior year, the Water Authority implemented the accounting standard for pension plans. As a result of implementing the accounting standard, the Water Authority is reporting a significant net pension liability, related deferred inflows of resources and an increase in expenses related to pension for this fiscal year which have a negative effect on net position. In addition, the Water Authority is reporting deferred outflows of resources, which have a positive consequence on net position. This increase in pension expense is the difference between the contractually required contributions and the pension expense resulting from the change in the net pension liability that is not reported as deferred inflows or outflows. To further explain the impact of this new accounting standard on the Water Authority net position, additional information is presented below.

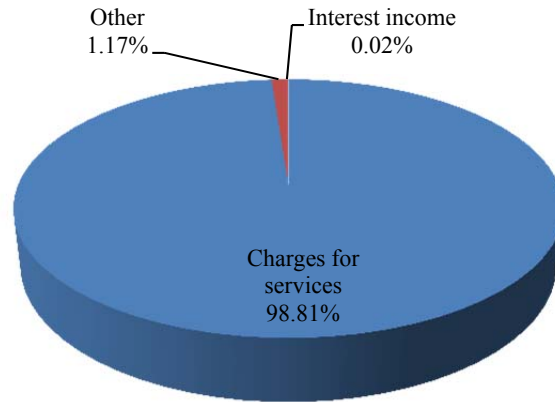
	<u>2017</u>	<u>2016</u>
Deferred outflows - pension	\$ 254,203	\$ 193,683
Deferred inflows - pension	(7,419)	(13,582)
Net pension liability	<u>(658,541)</u>	<u>(505,261)</u>
Impact of GASB 68 on net position	<u>\$ (411,757)</u>	<u>\$ (325,160)</u>

The charts below illustrate the revenues and expenses for the Water Authority during 2017 and 2016.

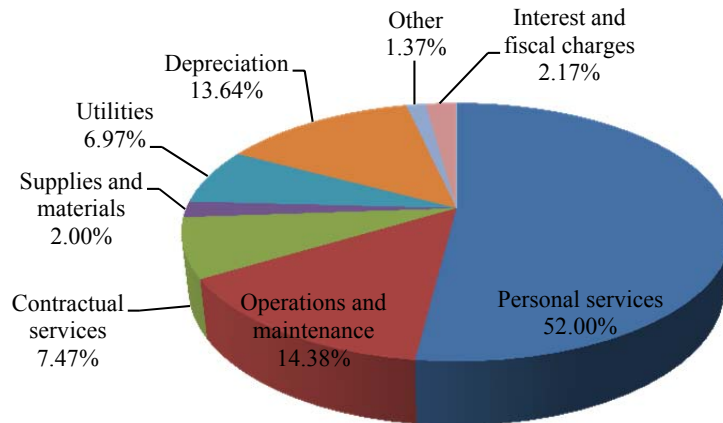
**Lakengren Water Authority  
Preble County, Ohio**

**Management's Discussion and Analysis  
For the Year Ended December 31, 2017  
(Unaudited)**

**2017 Revenues**



**2017 Expenses**



**Capital Assets**

At December 31, 2017, the Water Authority had \$7,295,694 invested in capital assets consisting of land, construction in progress, nondepreciable infrastructure, buildings, vehicles, equipment and depreciable infrastructure. The following table shows December 31, 2017's balances compared to December 31, 2016 (see note 6 to the basic financial statements):

**Lakengren Water Authority  
Preble County, Ohio**

Management's Discussion and Analysis  
For the Year Ended December 31, 2017  
(Unaudited)

Capital Assets, at Year End  
(Net of Depreciation)

	<u>2017</u>	<u>2016</u>
Land	\$ 102,842	\$ 102,842
Construction in progress	225,711	9,800
Nondepreciable infrastructure	5,005,141	5,005,141
Buildings	654,609	675,389
Vehicles	9,023	13,018
Equipment	60,091	75,683
Depreciable infrastructure	<u>1,238,277</u>	<u>1,369,905</u>
Total capital assets	<u>\$ 7,295,694</u>	<u>\$ 7,251,778</u>

**Debt**

At December 31, 2017, the Water Authority paid off the water revenue bonds outstanding. The water revenue bonds were issued in 2008 to fund the construction of a new administration building. Principal payments were made from the water fund.

The Water Authority has an OWDA loan outstanding at December 31, 2017. The total amount of the outstanding loan is \$863,243 and bears an interest rate of 2.75% with a final maturity of July 1, 2026, \$85,776 of this loan is due in one year. 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 5 of the notes to the basic financial statements for more information.

**Current Financial Related Activities**

The Water Authority's net position decreased \$63,729 from 2016 to 2017. Sound financial management from the board of trustees and fiscal officer has provided stability during 2017.

**Contacting the Water Authority's Financial Management**

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 money it receives. If you have questions about this report or need additional financial information contact Kellie Rickard, Fiscal Officer, 24 Lakengren Drive, Eaton, Ohio 45320-2858, 937-456-4455 or email to [krickard@lakengrenh2o.org](mailto:krickard@lakengrenh2o.org).

**Lakengren Water Authority**  
**Preble County, Ohio**  
Statement of Net Position  
December 31, 2017

	Business-Type Activities - Enterprise Funds		
	Water	Sewer	Total
<u>Assets:</u>			
Current assets:			
Equity in pooled cash and cash equivalents	\$ -	\$ 5,116	\$ 5,116
Cash and cash equivalents:			
In segregated accounts	796,844	248,682	1,045,526
Receivables:			
Accounts	94,501	40,500	135,001
Special assessments	16,138	124,039	140,177
Due from other governments	-	10,470	10,470
Materials and supplies inventory	23,989	41,540	65,529
Prepaid items	11,328	23,990	35,318
Total current assets	942,800	494,337	1,437,137
Non-current assets:			
Restricted assets:			
Cash with fiscal agent	2,124	-	2,124
Nondepreciable capital assets	2,871,957	2,461,737	5,333,694
Depreciable capital assets, net	691,904	1,270,096	1,962,000
Total non-current assets	3,565,985	3,731,833	7,297,818
Total assets	4,508,785	4,226,170	8,734,955
<u>Deferred outflows of resources:</u>			
Pension	119,475	134,728	254,203
<u>Liabilities:</u>			
Current liabilities:			
Accounts payable	8,420	11,060	19,480
Contracts payable	-	42,711	42,711
Accrued wages and benefits	4,257	4,633	8,890
Compensated absences payable	9,915	14,598	24,513
Intergovernmental payable	8,663	9,529	18,192
Accrued interest payable	11,870	-	11,870
OWDA loans payable	85,776	-	85,776
Total current liabilities	128,901	82,531	211,432
Long-term liabilities:			
Compensated absences payable	9,546	17,324	26,870
OWDA loans payable, net of current portion	777,467	-	777,467
Net pension liability	309,514	349,027	658,541
Total long-term liabilities	1,096,527	366,351	1,462,878
Total liabilities	1,225,428	448,882	1,674,310
<u>Deferred intflows of resources:</u>			
Pension	3,487	3,932	7,419
<u>Net position:</u>			
Net investment in capital assets	2,700,618	3,731,833	6,432,451
Restricted for:			
Revenue bonds future debt service	2,124	-	2,124
Unrestricted	696,603	176,251	872,854
Total net position	\$ 3,399,345	\$ 3,908,084	\$ 7,307,429

See accompanying notes to the basic financial statements.

**Lakengren Water Authority**  
**Preble County, Ohio**

Statement of Revenues, Expenses and Changes in Net Position  
For the Year Ended December 31, 2017

	Business-Type Activities - Enterprise Funds		
	Water	Sewer	Total
<u>Operating revenues:</u>			
Charges for services	\$ 650,066	\$ 533,191	\$ 1,183,257
Other	6,715	7,232	13,947
Total operating revenue	656,781	540,423	1,197,204
<u>Operating expenses:</u>			
Personal services	319,751	336,046	655,797
Operations and maintenance	39,040	142,402	181,442
Contractual services	40,845	53,440	94,285
Supplies and materials	16,343	8,884	25,227
Utilities	31,131	56,776	87,907
Depreciation	38,108	133,887	171,995
Other	5,902	11,343	17,245
Total operating expenses	491,120	742,778	1,233,898
Operating income (loss)	165,661	(202,355)	(36,694)
<u>Nonoperating revenues (expenses):</u>			
Interest	198	87	285
Interest and fiscal charges	(27,320)	-	(27,320)
Total nonoperating revenues (expenses)	(27,122)	87	(27,035)
Income (loss) before transfers	138,539	(202,268)	(63,729)
Transfers in	61	-	61
Transfers - out	-	(61)	(61)
Total transfers	61	(61)	-
Change in net position	138,600	(202,329)	(63,729)
Net position at beginning of year	3,260,745	4,110,413	7,371,158
Net position at end of year	\$ 3,399,345	\$ 3,908,084	\$ 7,307,429

See accompanying notes to the basic financial statements.



**Lakengren Water Authority**  
**Preble County, Ohio**  
Statement of Cash Flows  
For the Year Ended December 31, 2017

	Business-Type Activities - Enterprise Funds		
	Water	Sewer	Total
Cash flows from operating activities:			
Cash received from customers	\$ 647,965	\$ 540,731	\$ 1,188,696
Cash payments for employee services and benefits	(278,739)	(286,671)	(565,410)
Cash payments to suppliers for goods and services	(138,724)	(281,489)	(420,213)
Net cash provided by (used for) operating activities	<u>230,502</u>	<u>(27,429)</u>	<u>203,073</u>
Cash flows from noncapital financing activities:			
Transfers from other funds	61	-	61
Transfers to other funds	-	(61)	(61)
Net cash provided by (used for) noncapital financing activities	<u>61</u>	<u>(61)</u>	<u>-</u>
Cash flows from capital and related financing activities:			
Interest paid on debt	(28,739)	-	(28,739)
Principal payment on bonds and loans	(158,465)	-	(158,465)
Acquisition of capital assets	-	(173,200)	(173,200)
Net cash used for capital and related financing activities	<u>(187,204)</u>	<u>(173,200)</u>	<u>(360,404)</u>
Cash flows from investing activities:			
Investment income	198	87	285
Net cash provided by investing activities	<u>198</u>	<u>87</u>	<u>285</u>
Net increase (decrease) in cash and cash equivalents	43,557	(200,603)	(157,046)
Cash and cash equivalents at beginning of year	755,411	454,401	1,209,812
Cash and cash equivalents at end of year	<u>\$ 798,968</u>	<u>\$ 253,798</u>	<u>\$ 1,052,766</u>
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:			
Operating income (loss)	\$ 165,661	\$ (202,355)	\$ (36,694)
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:			
Depreciation	38,108	133,887	171,995
Change in assets and liabilities:			
(Increase) decrease in assets:			
Accounts receivable	(7,915)	4,954	(2,961)
Special assessment receivable	(901)	5,824	4,923
Materials and supplies inventory	137	6,581	6,718
Prepaid items	(5,314)	(18,543)	(23,857)
Due from other governments	-	(10,470)	(10,470)
Increase in deferred outflows of resources - pension	(28,444)	(32,076)	(60,520)
Increase (decrease) in liabilities:			
Accounts payable	(2,683)	2,688	5
Accrued wages and benefits	(689)	(49)	(738)
Compensated absences	2,767	3,132	5,899
Intergovernmental payable	630	1,026	1,656
Net pension liability	72,042	81,238	153,280
Increase in deferred inflows of resources - pension	(2,897)	(3,266)	(6,163)
Net cash provided by (used for) operating activities	<u>\$ 230,502</u>	<u>\$ (27,429)</u>	<u>\$ 203,073</u>

See accompanying notes to the basic financial statements.

**Lakengren Water Authority**  
**Preble County, Ohio**

Notes to the Basic Financial Statements  
For the Year Ended December 31, 2017

**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.

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; or (3) the Water Authority is legally obligated or has otherwise assumed the responsibility to finance deficits of or provide financial support to the organization; or (4) the Water Authority 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. Certain organizations are also included as component units if the nature and significance of the relationship between the primary government and the organization is such that exclusion by the primary government would render the primary governments financial statements incomplete or misleading. Based upon the application of these criteria, the Water Authority has no component units. The basic financial statements of the reporting entity include only those of the Water Authority (the primary government).

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

The financial statements of the 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 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 Year Ended December 31, 2017

**A. Basis of Presentation**

The Water Authority's basic financial statements consist of a statement of net position, a statement of revenues, expenses and changes in net position 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 position, 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.

The following are the major enterprise funds 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, all liabilities, deferred outflows of resources and deferred inflows of resources associated with the operation of the Water Authority are included on the statement of net position. The statement of revenues, expenses and changes in net position presents increases (i.e., revenues) and decreases (i.e., expenses) in total net position. 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.

Deferred Outflows/Inflows of Resources

In addition to assets, the statements of net position will sometimes report a separate section for deferred outflows of resources. Deferred outflows of resources, represents a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until then. For the Water Authority, deferred outflows of resources are reported on the statement of net position for pension. The deferred outflows of resources related to pension are explained in Note 9.

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In addition to liabilities, the statements of net position reports a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time. Deferred inflows of resources related to pension are reported on the statement of net position. (See Note 9)

**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 position as “restricted assets: cash with fiscal agent”.

The Water Authority has segregated bank accounts for monies held separate from the Water Authority’s central bank account. These interest-bearing deposit accounts are presented on the statement of net position as “cash and cash equivalents in segregated accounts”.

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 equity and pooled cash and cash equivalents. Investments with an initial maturity of more than three months are presented as investments.

**E. Budgetary Process**

The Ohio Revised Code requires the Water Authority to budget annually. The Water Authority budgets on a cash basis for revenues and expenses.

Appropriations

Budgetary expenses may not exceed appropriations at the legal level of control, which has been established by the Board at the object level within each fund and department 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 position as of January 1. The County Budget Commission is not required to approve estimated resources.

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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.

**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, 2017 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 cash with fiscal agent 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 position. 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 acquisition values as of the date received. The Water Authority maintains a capitalization threshold of \$5,000. 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.

All reported capital assets are depreciated except for land, construction in progress and certain infrastructure reported on the modified approach. 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:

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<u>Description</u>	<u>Estimated Lives</u>
Buildings	5-50 years
Vehicles	5 years
Equipment	7 years
Infrastructure	10-30 years

The Water Authority applies the modified approach for reporting to certain 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. Conditional assessments 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. Net pension liability and pension expense**

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the pension plans and additions to/deductions from their fiduciary net position have been determined on the same basis as they are reported by the pension systems. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. The pension systems report investments at fair value.

The current accounting standard requires the Water Authority to report their proportionate share of the net pension liability using the earning approach to pension accounting instead of the funding approach as previously used. The funding approach limited pension costs to contributions annually required by law, which may or may not be sufficient to fully fund each plan's net pension liability. Under the new standards, the net pension liability equals the Water Authority's proportionate share of each plan's collective present value of estimated future pension benefits attributable to active and inactive employees' past service minus plan assets available to pay these benefits.

Pension obligations, whether funded or unfunded, are part of the employment exchange. The employee is trading his or her labor in exchange for wages, benefits, and the promise of a future pension. The unfunded portion of this benefit of exchange is a liability of the Water Authority.

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However, the Water Authority is not responsible for key factors affecting the balance of this liability. In Ohio, the employee shares the obligation of funding pension benefits with the employer. Benefit provisions and both employer and employee contribution rates are determined by State statute. The employee and employer enter the employment exchange with the knowledge that the exchange is limited by law. The pension system is responsible for the administration of the plan.

There is no repayment schedule for the net pension liability. The Water Authority has no control over the changes in the pension benefits, contributions rate, and return on investments affecting the balance of the net pension liability. In the event that contributions, investment returns, and other changes are insufficient to keep up with required pension payments, State statute does not identify the responsible party for the unfunded portion. Due to the unique nature of how the pension liability is satisfied, this liability is separately identified within the long-term liability section of the statement of net position.

**K. 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.

**L. Net Position**

Net position represents the difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources. Net investment in capital assets, consists of capital assets, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Water Authority or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

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

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**M. 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. For the Water Authority, these expenses are interest and fiscal charges expense.

**N. Contributions of Capital**

Contributions of capital arise from outside contributions of capital assets or outside contributions of resources restricted to capital acquisition and construction. During 2017, there were no capital contributions.

**O. 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.

**P. Extraordinary and Special Items**

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Water Authority Administration and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during 2017.

**NOTE 3 - DEPOSITS AND INVESTMENTS**

The investments and deposits of the Water Authority's monies are governed by the Water Authority's 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.



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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 within in five years from the date of deposit, or by savings or deposit accounts, including passbook 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.

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 \$1,052,766. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of December 31, 2017, none of the Water Authority's bank balance of \$1,078,986 was exposed to custodial credit risk as described below.

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.

**NOTE 4 - 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.

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**NOTE 5 - LONG-TERM OBLIGATIONS**

Changes in long-term obligations during the year ended December 31, 2017 were as follows:

	Balance			Balance	Amount
	<u>12/31/16</u>	<u>Increases</u>	<u>Decreases</u>	<u>12/31/17</u>	<u>Due in</u> <u>One Year</u>
<u>Bonds and loans</u>					
Series 2008 A untaxed revenue bonds, 4.02%	\$ 62,000	\$ -	\$ (62,000)	\$ -	\$ -
Series 2008 B taxed revenue bonds, 6.03%	13,000	-	(13,000)	-	-
OWDA loan, 2.75%	946,707	-	(83,464)	863,243	85,776
Total bonds and loans	<u>1,021,707</u>	<u>-</u>	<u>(158,464)</u>	<u>863,243</u>	<u>85,776</u>
<u>Other obligations</u>					
Compensated absences	45,484	26,956	(21,057)	51,383	24,513
Net pension liability:					
Water	237,472	72,042	-	309,514	-
Sewer	267,789	81,238	-	349,027	-
Total net pension liability	<u>505,261</u>	<u>153,280</u>	<u>-</u>	<u>658,541</u>	<u>-</u>
Total long-term obligations	<u>\$ 1,572,452</u>	<u>\$ 180,236</u>	<u>\$ (179,521)</u>	<u>\$ 1,573,167</u>	<u>\$ 110,289</u>

On March 21, 2008, the Water Authority issued \$620,000 and \$130,000 in series 2008A untaxed revenue bonds and series 2008B taxed revenue bonds, respectively, for the construction of a new administration building. The bonds bear interest rates of 4.02% and 6.03%, respectively and matured on December 1, 2017.

The series 2008A untaxed revenue bonds and series 2008B taxed revenue bonds are general obligations of the Water Authority for which the full faith and credit of the Water Authority has pledged future water customers revenues, net of specific operating expenses, to repay the bonds that were used to construct a new administration building. The bonds are payable solely from water customer net revenues and are payable through 2017. Annual principal and interest payments on the bonds are expected to require approximately 40.38% of net revenues. Principal and interest paid for the current year and total water customer net revenues were \$75,000 and \$3,276, respectively.

The Water Authority has an Ohio Water Development Authority (OWDA) Loan outstanding at December 31, 2017. The total amount of the loan issued was \$1,667,151 and bears an interest rate of 2.75% 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 bonds and loan outstanding at December 31, 2017 are:

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<u>Year</u>	<u>OWDA loan</u>		<u>Total</u>
	<u>Principal</u>	<u>Interest</u>	
2018	\$ 85,776	\$ 23,154	\$ 108,930
2019	88,151	20,778	108,929
2020	90,591	18,338	108,929
2021	93,100	15,829	108,929
2022	95,678	13,251	108,929
2023-2026	<u>409,947</u>	<u>25,770</u>	<u>435,717</u>
Total	<u>\$ 863,243</u>	<u>\$ 117,120</u>	<u>\$ 980,363</u>

The Water Authority pays net pension liability obligations from the fund benefitting from employee services.

**NOTE 6 – CAPITAL ASSETS**

Capital asset activity during 2017 was as follows:

	<u>Balance</u> <u>12/31/2016</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>12/31/2017</u>
Capital assets, not being depreciated:				
Land	\$ 102,842	\$ -	\$ -	\$ 102,842
Construction in progress	9,800	215,911	-	225,711
Infrastructure	<u>5,005,141</u>	<u>-</u>	<u>-</u>	<u>5,005,141</u>
Total capital assets, not being depreciated	<u>5,117,783</u>	<u>215,911</u>	<u>-</u>	<u>5,333,694</u>
Capital assets, being depreciated:				
Buildings	887,182	-	-	887,182
Vehicles	90,231	-	-	90,231
Equipment	176,614	-	-	176,614
Infrastructure	<u>4,068,446</u>	<u>-</u>	<u>-</u>	<u>4,068,446</u>
Total capital assets, being depreciated	<u>5,222,473</u>	<u>-</u>	<u>-</u>	<u>5,222,473</u>
Less accumulated depreciation:				
Buildings	(211,793)	(20,780)	-	(232,573)
Vehicles	(77,213)	(3,995)	-	(81,208)
Equipment	(100,931)	(15,592)	-	(116,523)
Infrastructure	<u>(2,698,541)</u>	<u>(131,628)</u>	<u>-</u>	<u>(2,830,169)</u>
Total accumulated depreciation	<u>(3,088,478)</u>	<u>(171,995)</u>	<u>-</u>	<u>(3,260,473)</u>
Total capital assets being depreciated, net	<u>2,133,995</u>	<u>(171,995)</u>	<u>-</u>	<u>1,962,000</u>
Business-type activities capital assets, net	<u>\$ 7,251,778</u>	<u>\$ 43,916</u>	<u>\$ -</u>	<u>\$ 7,295,694</u>

The Water Authority is reporting construction in progress for a new wastewater treatment plant during 2017.

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**NOTE 7 - 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 2017, the Water Authority contracted with independent third parties for various types of insurance as follows:

<u>Coverage</u>	<u>Limit</u>	<u>Deductible</u>
Property	\$ 6,996,366	\$ 1,000
General liability:		
Per occasion	1,000,000	none
Aggregate	3,000,000	none
Umbrella:		
Per occasion	3,000,000	none
Aggregate	3,000,000	none
Automobile:		
Liability	1,000,000	none
Comprehensive	Actual loss sustained	500
Collision	Actual loss sustained	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 8 - OTHER EMPLOYEE BENEFITS**

**A. Insurance Benefits**

The Water Authority employees have health insurance, dental and vision insurance, short term disability, and life insurance through independent third parties.

**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.

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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.

Vacation and sick leave are paid from the water and sewer funds.

**NOTE 9 - PENSION PLAN**

**Net pension liability**

The net pension liability reported on the statement of net position represents a liability to employees for pensions. Pensions are a component of exchange transactions between an employer and its employees of salaries and benefits for employee services. Pensions are provided to an employee on a deferred-payment basis as part of the total compensation package offered by an employer for employee services each financial period. The obligation to sacrifice resources for pensions is a present obligation because it was created as a result of employment exchanges that already have occurred.

The net pension liability represents the Water Authority's proportionate share of each pension plan's collective actuarial present value of projected benefit payments attributable to past periods of service, net of each pension plan's fiduciary net position. The net pension liability calculation is dependent on critical long-term variables, including estimated average life expectancies, earnings on investments, cost of living adjustments and others. While these estimates use the best information available, unknowable future events require adjusting this estimate annually.

Ohio Revised Code limits the Water Authority's obligation for this liability to annually required payments. The Water Authority cannot control benefit terms or the manner in which pensions are financed; however, the Water Authority does receive the benefit of employees' services in exchange for compensation including pension.

GASB 68 assumes the liability is solely the obligation of the employer, because (1) they benefit from employee services; and (2) State statute requires all funding to come from these employers. All contributions to date have come solely from these employers (which also includes costs paid in the form of withholdings from employees). State statute requires the pension plans to amortize unfunded liabilities within 30 years. If the amortization period exceeds 30 years, each pension plan's board must propose corrective action to the State legislature. Any resulting legislative change to benefits or funding could significantly affect the net pension liability. Resulting adjustments to the net pension liability would be effective when the changes are legally enforceable.

The proportionate share of each plan's unfunded benefits is presented as a long-term net pension liability on the accrual basis of accounting. Any liability for the contractually-required pension contribution outstanding at the end of the year is included in intergovernmental payable.

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**Plan Description - Ohio Public Employees Retirement System**

The Water Authority participates in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans. The Traditional Pension Plan is a cost-sharing, multiple-employer defined benefit pension plan. The Member-Directed Plan is a defined contribution plan and the combined plan is a cost sharing, multiple employer defined benefit pension plan with defined contribution features. While members may elect the member-directed plan and the combined plan, all employee members are in OPERS' traditional plan; therefore, the following disclosure focuses on the traditional pension plan.

OPERS provides retirement, disability, survivor and death benefits, and annual cost of living adjustments to members of the traditional plan. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report that includes financial statements, required supplementary information and detailed information about OPERS' fiduciary net position that may be obtained by visiting <https://www.opers.org/financial/reports.shtml>, by writing to the Ohio Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642, or by calling 800-222-7377.

Senate Bill (SB) 343 was enacted into law with an effective date of January 7, 2013. In the legislation, members were categorized into three groups with varying provisions of the law applicable to each group. The following table provides age and service requirements for retirement and the retirement formula applied to final average salary (FAS) for the three member groups under the traditional plan as per the reduced benefits adopted by SB 343 (see OPERS CAFR referenced above for additional information):

<b>Group A</b>	<b>Group B</b>	<b>Group C</b>
Eligible to retire prior to January 7, 2013 or five years after <u>January 7, 2013</u>	20 years of service credit prior to January 7, 2013 or eligible to retire <u>ten years after January 7, 2013</u>	Members not in other Groups and members hired on or after <u>January 7, 2013</u>
<b>State and Local</b>	<b>State and Local</b>	<b>State and Local</b>
<b>Age and service requirements:</b> Age 60 with 60 months of service credit or Age 55 with 25 years of service credit	<b>Age and service requirements:</b> Age 60 with 60 months of service credit or Age 55 with 25 years of service credit	<b>Age and service requirements:</b> Age 57 with 25 years of service credit or Age 62 with 5 years of service credit
<b>Formula:</b> 2.2% of FAS multiplied by years of service for the first 30 years and 2.5% for service years in excess of 30	<b>Formula:</b> 2.2% of FAS multiplied by years of service for the first 30 years and 2.5% for service years in excess of 30	<b>Formula:</b> 2.2% of FAS multiplied by years of service for the first 35 years and 2.5% for service years in excess of 35

Final average Salary (FAS) represents the average of the three highest years of earnings over a member's career for Groups A and B. Group C is based on the average of the five highest years of earnings over a member's career.

Members who retire before meeting the age and years of service credit requirement for unreduced benefits receive a percentage reduction in the benefit amount.

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When a benefit recipient has received benefits for 12 months, an annual cost of living adjustment (COLA) is provided. This COLA is calculated on the base retirement benefit at the date of retirement and is not compounded. For those retiring prior to January 7, 2013, the COLA will continue to be a 3 percent simple annual COLA. For those retiring subsequent to January 7, 2013, beginning in calendar year 2019, the COLA will be based on the average percentage increase in the Consumer Price Index, capped at 3 percent.

Funding Policy - The Ohio Revised Code (ORC) provides statutory authority for member and employer contributions as follows:

	<u>State and Local</u>
<b>2017 Statutory maximum contribution rates</b>	
Employer	14.00 %
Employee	10.00 %
 <b>2017 Actual contribution rates</b>	
Employer:	
Pension	13.00 %
Post-employment health care benefits	<u>1.00</u>
Total employer	<u>14.00 %</u>
 Employee	 <u>10.00 %</u>

Employer contribution rates are actuarially determined and are expressed as a percentage of covered payroll. The Water Authority's contractually required contribution was \$50,785 for 2017. Of this amount, \$8,897 is reported as an intergovernmental payable.

**Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions**

The net pension liability for OPERS was measured as of December 31, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Water Authority's proportion of the net pension liability was based on the Water Authority's share of contributions to the pension plan relative to the contributions of all participating entities. Following is information related to the proportionate share and pension expense:

	<u>OPERS</u>
Proportion of the net pension liability - prior measurement date	0.002917%
Proportion of the net pension liability - current measurement date	<u>0.002900%</u>
Change in proportionate share	<u>-0.000017%</u>
 Proportionate share of the net pension liability	 \$658,541
Pension expense	\$137,382

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At December 31, 2017, the Water Authority reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>OPERS</u>
<b>Deferred outflows of resources</b>	
Differences between expected and actual experience	\$ 893
Changes of assumptions	104,453
Net difference between projected and actual earnings on pension plan investments	98,072
The Water Authority's contributions subsequent to the measurement date	<u>50,785</u>
Total deferred outflows of resources	<u>\$ 254,203</u>
 <b>Deferred inflows of resources</b>	
Differences between expected and actual experience	\$ 3,919
Changes in proportionate share and difference between the Water Authority contributions and proportionate share of contributions	<u>3,500</u>
Total deferred inflows of resources	<u>\$ 7,419</u>

\$50,785 reported as deferred outflows of resources related to pension resulting from the Water Authority's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending December 31, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

	<u>OPERS</u>
Year ending December 31:	
2018	\$ 79,833
2019	84,234
2020	34,805
2021	<u>(2,873)</u>
Total	<u>\$ 195,999</u>

**Actuarial Assumptions - OPERS**

Actuarial valuations of an ongoing plan involve estimates of the values of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and cost trends. Actuarially determined amounts are subject to continual review or modification as actual results are compared with past expectations and new estimates are made about the future.



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Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employers and plan members) and include the types of benefits provided at the time of each valuation. The total pension liability in the December 31, 2016, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Wage inflation	3.25 percent
Future salary increases, including inflation	3.25 percent to 10.75 percent
COLA or Ad Hoc COLA	3 percent, simple
Investment rate of return	7.5 percent
Actuarial cost method	Individual entry age

Mortality rates are based on the RP-2014 Healthy Annuitant mortality table. For males, Healthy Annuitant Mortality tables were used, adjusted for mortality improvement back to the observation period base of 2006 and then established the base year as 2015. For females, Healthy Annuitant Mortality tables were used, adjusted for mortality improvements back to the observation period base year of 2006 and then established the base year as 2010. The mortality rates used in evaluating disability allowances were based on the RP-2014 Disabled mortality tables, adjusted for mortality improvement back to the observation base year of 2006 and then established the base year as 2015 for males and 2010 for females. Mortality rates for a particular calendar year for both healthy and disabled retiree mortality tables are determined by applying the MP-2015 mortality improvement scale to the above described tables.

The most recent experience study was completed for the five year period ended December 31, 2015.

The long-term rate of return on defined benefit investment assets was determined using a building-block method in which best-estimate ranges of expected future real rates of return are developed for each major asset class. These ranges are combined to produce the long-term expected real rate of return by weighting the expected future real rates of return by the target asset allocation percentage, adjusted for inflation.

During 2016, OPERS managed investments in four investment portfolios: the Defined Benefit portfolio, the 401(h) Health Care Trust portfolio, the 115 Health Care Trust portfolio and the Defined Contribution portfolio. The 401(h) Health Care Trust portfolio was closed as of June 30, 2016 and the net position transferred to the 115 Health Care Trust portfolio on July 1, 2016. The Defined Benefit portfolio contains the investment assets of the Traditional Pension Plan, the defined benefit component of the Combined Plan and the annuitized accounts of the Member-Directed Plan. The Defined Benefit portfolio historically included the assets of the Member-Directed retiree medical accounts funded through the VEBA Trust. However, the VEBA Trust was closed as of June 30, 2016 and the net position transferred to the 115 Health Care Trust portfolio on July 1, 2016. Within the Defined Benefit portfolio, contributions into the plans are all recorded at the same time, and benefit payments all occur on the first of the month. Accordingly, the money-weighted rate of return is considered to be the same for all plans within the portfolio. The annual money-weighted rate of return expressing investment performance, net of investment expenses and adjusted for the changing amounts actually invested, for the Defined Benefit portfolio is 8.3% for 2016.

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The allocation of investment assets with the Defined Benefit portfolio is approved by the Board of Trustees as outlined in the annual investment plan. Plan assets are managed on a total return basis with a long-term objective of achieving and maintaining a fully funded status for the benefits provided through the defined benefit pension plans. The table below displays the Board-approved asset allocation policy for 2016 and the long-term expected real rates of return:

<u>Asset class</u>	<u>Target allocation</u>	<u>Weighted average long-term expected real rate of return (arithmetic)</u>
Fixed income	23.00 %	2.75 %
Domestic equities	20.70	6.34
Real estate	10.00	4.75
Private equity	10.00	8.97
International equities	18.30	7.95
Other investments	<u>18.00</u>	<u>4.92</u>
 Total	 <u>100.00 %</u>	 <u>5.66 %</u>

**Discount Rate** The discount rate used to measure the total pension liability was 7.5 percent. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and those of the contributing employers are made at the statutorily required rates. Based on those assumptions, the pension plan’s fiduciary net position was projected to be available to make all projected future benefits payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

**Sensitivity of the Water Authority’s Proportionate Share of the Net Pension Liability to Changes in the Discount Rate** The following table presents the Water Authority’s proportionate share of the net pension liability calculated using the current period discount rate assumption of 7.5 percent, as well as what the Water Authority’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is one-percentage-point lower (6.5 percent) or one-percentage-point higher (8.5 percent) than the current rate:

	1% Decrease	Current discount rate	1% Increase
	<u>6.50%</u>	<u>7.50%</u>	<u>8.50%</u>
The Water Authority's proportionate share of the net pension liability	\$ 1,006,068	\$ 658,541	\$ 368,938

**Lakengren Water Authority  
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**NOTE 10 - POSTEMPLOYMENT BENEFIT PLAN**

The Ohio Public Employees Retirement System (OPERS) provides postretirement health care coverage, commonly referred to OPEB (other postemployment benefits). OPERS administers three separate pension plans, the Traditional Pension Plan (TP), the Member-Directed Plan (MD) and the Combined Plan (CP), all of which are described in Note 9.

OPERS maintains a cost-sharing, multiple-employer defined benefit post-employment health care trust, which funds multiple health care plans including medical coverage, prescription drug coverage and deposits to a Health Reimbursement Arrangement to qualifying benefit recipients of both the Traditional Pension and the Combined plans. This trust is also used to fund health care for Member-Directed Plan participants, in the form of a Retiree Medical Account (RMA). At retirement or refund, Member-Directed Plan participants may be eligible for reimbursement of qualified medical expenses from their vested RMA balance.

In order to qualify for health care coverage, age-and-service retirees under the Traditional Pension and Combined plans must have 20 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 45. Please see the Plan Statement in the OPERS 2016 CAFR for details.

The Ohio Revised Code permits, but does not require, OPERS to provide health care to its eligible benefit recipients. Authority to establish and amend health care coverage is provided to the OPERS Board of Trustees (OPERS Board) in Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report. Interested parties may obtain a copy by visiting <https://www.opers.org/financial/reports.shtml>, by writing to OPERS, 277 East Town Street, Columbus, OH 43215-4642, or by calling 614-222-5601 or 800-222-7377.

The Ohio Revised Code provides statutory authority requiring 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. Employer contribution rates are expressed as a percentage of the covered payroll of active members. In 2017, the Water Authority contributed at a rate of 14.0 percent of covered payroll. The Ohio Revised Code currently limits the employer contribution to a rate not to exceed 14.0 percent of covered payroll for state and local employer units. Active members do not make contributions to the OPEB plan.

Each year, the OPERS Board determines the portion of the employer contribution rate that will be set aside to fund health care plans. The portion of employer contributions allocated to health care for members in the Traditional Pension Plan and Combined Plan was 1.0% during calendar year 2017. As recommended by OPERS' actuary, the portion of employer contributions allocated to health care beginning January 1, 2018 decreased to 0.0% for both plans. The OPERS Board is also authorized to establish rules for the retiree or their surviving beneficiaries to pay a portion of the health care provided. Payment amounts vary depending on the number of covered dependents and the coverage selected. The employer contribution as a percentage of covered payroll deposited to the RMA for participants in the Member-Directed Plan for 2017 was 4.0%.

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The Water Authority's contributions allocated to fund post-employment health care benefits for the years ended December 31, 2017, 2016 and 2015 were \$3,907, \$7,528 and \$7,285, respectively; 82.5% has been contributed for 2017 and 100% has been contributed for 2016 and 2015. \$684 representing the unpaid contribution for fiscal year 2017 is recorded as an intergovernmental payable. The actual contribution and the actuarially required contribution amounts are the same.

**NOTE 11 - 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 year ended December 31, 2017 were \$731.17 per month. 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, 2017 are as follows:

<u>Year</u>	<u>Amount</u>	<u>Year</u>	<u>Amount</u>
2018	\$ 8,774	2053-2057	\$ 43,870
2019	8,774	2058-2062	43,870
2020	8,774	2063-2067	43,870
2021	8,774	2068-2072	43,870
2022	8,774	2073-2077	43,870
2023-2027	43,870	2078-2082	43,870
2028-2032	43,870	2083-2087	43,870
2033-2037	43,870	2088-2092	43,870
2038-2042	43,870	2093-2097	43,870
2043-2047	43,870	2098-2102	43,870
2048-2052	43,870	2103	8,774
		Total	<u>\$ 754,564</u>

**NOTE 12 – SUBSEQUENT EVENT**

Following the close of the fiscal year, the Water Authority entered into a loan agreement with the OWDA for a water pollution control loan. The loan, with an estimated principal balance of \$7,299,000 and a 0.85% interest rate, will be used to provide funding for a new construction project. The project is for upgrades to the existing wastewater treatment facility in order to meet current and upcoming compliance. The loan principal and interest are to be repaid using special assessments.

## **Required Supplementary Information**

**Lakengren Water Authority**  
**Preble County, Ohio**  
Required Supplementary Information  
Schedule of the Water Authority's Proportionate Share of the Net Pension Liability  
Last Four Years (1)

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
<b>Ohio Public Employees Retirement System (OPERS) - Traditional Plan</b>				
Water Authority's proportion of the net pension liability	0.002900%	0.002917%	0.002965%	0.002965%
Water Authority's proportionate share of the net pension liability	\$ 658,541	\$ 505,261	\$ 357,612	\$ 349,535
Water Authority's covered employee payroll	\$ 376,400	\$ 364,267	\$ 365,025	\$ 301,354
Water Authority's proportionate share of the net pension liability as a percentage of its covered employee payroll	174.96%	138.71%	97.97%	115.99%
Plan fiduciary net position as a percentage of total pension liability	77.25%	81.08%	86.45%	86.36%

(1) Information prior to 2013 is not available and the amounts presented are as of Water Authority's measurement date which is the prior fiscal year end.

**Lakengren Water Authority**  
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Required Supplementary Information  
Schedule of Water Authority's Contributions  
Last Five Years (1)

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
<b>Ohio Public Employees Retirement System (OPERS) - Traditional Plan</b>					
Contractually required contribution	\$ 50,785	\$ 45,168	\$ 43,712	\$ 43,803	\$ 39,176
Contributions in relation to contractually required contribution	<u>(50,785)</u>	<u>(45,168)</u>	<u>(43,712)</u>	<u>(43,803)</u>	<u>(39,176)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Water Authority's covered employee payroll	\$ 390,654	\$ 376,400	\$ 364,267	\$ 365,025	\$ 301,354
Contributions as a percentage of covered employee payroll	13.00%	12.00%	12.00%	12.00%	13.00%

(1) Information prior to 2013 is not available.

**Lakengren Water Authority**  
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Notes to Required Supplementary Information  
For the Year Ended December 31, 2017

**Ohio Public Employees Retirement System (OPERS) - Traditional Plan**

Changes in benefit terms: There were no changes in benefit terms from the amounts reported.

Changes in assumptions: There was a change in methods and assumptions used in the calculation of actuarial determined contributions for 2017. See the notes to the basic financials for the methods and assumptions in this calculation.



**Lakengren Water Authority  
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Tgs wktgf "Supplementary Kformation  
Condition assessment of the infrastructure reported  
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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. 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 years ended December 31, 2017, 2016, 2015, 2014, and 2013. The Water Authority implemented the modified approach during 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	Critical	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 2 or higher. The following is a summary of the conditional assessment for the wells:

Well Condition	Number of Wells	Percent of Total
2 - Good	7	100.00%
1 - Excellent	-	0.00%
Total	<u>7</u>	<u>100.00%</u>

**Lakengren Water Authority  
Preble County, Ohio**

Required Supplementary Information  
Condition assessment of the infrastructure reported  
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The following is a comparison of the Water Authority's budgeted and actual expenses for maintaining the wells:

Year Ended	Budgeted Expenses	Actual Expenses	Difference
12/31/2013	\$ 9,300	\$ -	\$ 9,300
12/31/2014	23,000	-	23,000
12/31/2015	23,000	15,046	7,954
12/31/2016	20,000	4,775	15,225
12/31/2017	10,000	311	9,689

*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 2 or higher. The following is a comparison of the Water Authority's budgeted and actual expenses for maintaining the water treatment plant:

Year Ended	Budgeted Expenses	Actual Expenses	Difference
12/31/2013	\$ 8,000	\$ -	\$ 8,000
12/31/2014	1,500	-	1,500
12/31/2015	1,500	-	1,500
12/31/2016	1,500	-	1,500
12/31/2017	1,000	-	1,000

*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 2 or higher. The following is a comparison of the Water Authority's budgeted and actual expenses for maintaining the generator:

Year Ended	Budgeted Expenses	Actual Expenses	Difference
12/31/2013	\$ 1,500	\$ -	\$ 1,500
12/31/2014	1,500	-	1,500
12/31/2015	1,500	-	1,500
12/31/2016	1,500	-	1,500
12/31/2017	1,500	-	1,500

**Lakengren Water Authority  
Preble County, Ohio**

Required Supplementary Information  
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*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 2 or higher. The following is a comparison of the Water Authority's budgeted and actual expenses for maintaining the control panel:

Year Ended	Budgeted Expenses	Actual Expenses	Difference
12/31/2013	\$ 500	\$ -	\$ 500
12/31/2014	1,000	823	177
12/31/2015	4,000	3,966	34
12/31/2016	500	-	500
12/31/2017	500	-	500

*Meters*

The Water Authority has 1,390 water meters. The Water Authority's policy states that 80 percent of all water meters will be maintained at level 2 or higher.

The following is a summary of the conditional assessment for the meters:

Meter Condition	Number of Water Meters	Percent of Total
2 - Good	1,390	100.00%
Total	1,390	100.00%

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

Year Ended	Budgeted Expenses	Actual Expenses	Difference
12/31/2013	\$ 500	\$ -	\$ 500
12/31/2014	500	-	500
12/31/2015	1,000	-	1,000
12/31/2016	500	-	500
12/31/2017	10,500	9,457	1,043

**Lakengren Water Authority  
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Required Supplementary Information  
Condition assessment of the infrastructure reported  
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*Water Towers*

The Water Authority has two water towers and both are rated at level 2. The Water Authority's policy is to maintain the water towers at a level 2 or higher. The following is a comparison of the Water Authority's budgeted and actual expenses for maintaining the water towers:

Year Ended	Budgeted Expenses	Actual Expenses	Difference
12/31/2013	\$ 10,000	\$ 9,470	\$ 530
12/31/2014	10,000	9,470	530
12/31/2015	10,000	9,470	530
12/31/2016	10,000	9,470	530
12/31/2017	10,900	9,470	1,430

*Shutoff Valves*

The Water Authority has 179 water shutoff valves. The Water Authority's policy states that 80 percent of all shutoff valves will be maintained at level 2 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
2 - Good	175	97.76%
3 - Fair	4	2.23%
Total	<u>179</u>	<u>100.00%</u>

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

Year Ended	Budgeted Expenses	Actual Expenses	Difference
12/31/2013	\$ 500	-	\$ 500
12/31/2014	500	-	500
12/31/2015	500	-	500
12/31/2016	500	-	500
12/31/2017	500	-	500

**Lakengren Water Authority  
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Condition assessment of the infrastructure reported  
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*Hydrants*

The Water Authority has 121 hydrants consisting of fire and flushing hydrants, and all are rated at a level 2. The Water Authority's policy states that 80 percent of all hydrants will be maintained at level 2 or higher. The following is a comparison of the Water Authority's budgeted and actual expenses for maintaining the hydrants:

<u>Year Ended</u>	<u>Budgeted Expenses</u>	<u>Actual Expenses</u>	<u>Difference</u>
12/31/2013	\$ 1,000	\$ -	\$ 1,000
12/31/2014	4,000	3,604	396
12/31/2015	1,000	-	1,000
12/31/2016	7,500	-	7,500
12/31/2017	2,000	-	2,000

**B. Sewer Fund**

*Manholes*

The Water Authority has 444 manholes. The Water Authority's policy states that 80 percent of all manholes will be maintained at level 2 or higher. The following is a summary of the conditional assessment for the manholes:

<u>Manholes Condition</u>	<u>Number of Manholes</u>	<u>Percent of Total</u>
2 - Good	429	96.62%
3 - Fair	15	3.38%
Total	<u>444</u>	<u>100.00%</u>

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

<u>Year Ended</u>	<u>Budgeted Expenses</u>	<u>Actual Expenses</u>	<u>Difference</u>
12/31/2013	\$ 14,200	\$ 3,729	\$ 10,471
12/31/2014	1,000	-	1,000
12/31/2015	-	-	-
12/31/2016	5,000	-	5,000
12/31/2017	1,000	-	1,000

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*Lift Stations*

The Water Authority has 4 lift stations and all are rated at a level 2. The Water Authority's policy states that 80 percent of all lift stations will be maintained at level 2 or higher. The following is a comparison of the Water Authority's budgeted and actual expenses for maintaining the lift stations:

Year Ended	Budgeted Expenses	Actual Expenses	Difference
12/31/2013	\$ 10,000	\$ 1,530	\$ 8,470
12/31/2014	9,000	1,448	7,552
12/31/2015	7,500	7,235	265
12/31/2016	10,000	1,360	8,640
12/31/2017	16,000	15,029	971

*Generators*

The Water Authority operates 6 back up generators. One is located at each lift station and one at the wastewater plant. The Water Authority's policy is to maintain the generators at a level 2 or higher.

Generator Condition	Number of Generators	Percent of Total
2 - Good	6	100.00%
Total	6	100.00%

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

Year Ended	Budgeted Expenses	Actual Expenses	Difference
12/31/2013	\$ 1,000	\$ -	\$ 1,000
12/31/2014	1,000	600	400
12/31/2015	1,000	-	1,000
12/31/2016	1,000	-	1,000
12/31/2017	1,000	-	1,000

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*Grinder Pumps*

The Water Authority has 138 grinder pumps. The Water Authority’s policy states that 80 percent of all grinder pumps will be maintained at level 2 or higher. The following is a summary of the conditional assessment for the grinder pumps:

Grinder Pump Condition	Number of Grinder Pumps	Percent of Total
2 - Good	119	86.23%
3 - Fair	19	13.77%
Total	138	100.00%

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

Year Ended	Budgeted Expenses	Actual Expenses	Difference
12/31/2013	\$ 20,000	\$ 14,906	\$ 5,094
12/31/2014	25,000	17,345	7,655
12/31/2015	30,000	28,891	1,109
12/31/2016	35,000	30,232	4,768
12/31/2017	20,000	19,840	160

*Basins*

The Water Authority has two basins and both are rated at a level 2. The Water Authority’s policy states that the two basins will be maintained at level 2 or higher. The following is a comparison of the Water Authority’s budgeted and actual expenses for maintaining the basins:

Year Ended	Budgeted Expenses	Actual Expenses	Difference
12/31/2013	\$ 10,000	\$ 766	\$ 9,234
12/31/2014	10,000	1,692	8,308
12/31/2015	7,500	3,840	3,660
12/31/2016	10,000	-	10,000
12/31/2017	1,000	732	268

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*Aerators*

The Water Authority has four aerators, consisting of 3 tornado and 1 overhead aerators and all are rated at a level 2. The Water Authority's policy states that 80 percent of all aerators will be maintained at level 2 or higher. The following is a comparison of the Water Authority's budgeted and actual expenses for maintaining the aerators:

Year Ended	Budgeted Expenses	Actual Expenses	Difference
12/31/2013	\$ 1,000	\$ -	\$ 1,000
12/31/2014	4,500	4,286	214
12/31/2015	1,000	779	221
12/31/2016	1,000	-	1,000
12/31/2017	10,000	7,481	2,519

*Downdraft Mixer*

The Water Authority has a downdraft mixer that is rated at a level 2. The Water Authority's policy states that the downdraft mixer will be maintained at level 2 or higher. The following is a comparison of the Water Authority's budgeted and actual expenses for maintaining the downdraft mixer:

Year Ended	Budgeted Expenses	Actual Expenses	Difference
12/31/2013	\$ 1,000	\$ -	\$ 1,000
12/31/2014	1,000	-	1,000
12/31/2015	1,000	-	1,000
12/31/2016	1,000	-	1,000
12/31/2017	-	-	-

*Clarifiers*

The Water Authority has four clarifiers that are rated at a level 2. The Water Authority's policy states that the clarifiers will be maintained at level 2 or higher.

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

Year Ended	Budgeted Expenses	Actual Expenses	Difference
12/31/2013	\$ 1,000	\$ -	\$ 1,000
12/31/2014	49,500	48,324	1,176
12/31/2015	49,000	47,028	1,972
12/31/2016	49,000	46,686	2,314
12/31/2017	54,000	52,430	1,570



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*RBC Units*

The Water Authority has two RBC units that are rated at a level 2. The Water Authority's policy states that the RBC Units will be maintained at level 2 or higher. The following is a comparison of the Water Authority's budgeted and actual expenses for maintaining the RBC Units:

Year Ended	Budgeted Expenses	Actual Expenses	Difference
12/31/2013	\$ 2,000	\$ -	\$ 2,000
12/31/2014	500	-	500
12/31/2015	2,000	-	2,000
12/31/2016	2,000	-	2,000
12/31/2017	-	-	-

*UV Lights*

The Water Authority has a set of UV lights that is rated at a level 2. The Water Authority's policy states that the UV lights will be maintained at level 2 or higher. The following is a comparison of the Water Authority's budgeted and actual expenses for maintaining the UV lights:

Year Ended	Budgeted Expenses	Actual Expenses	Difference
12/31/2013	\$ 500	\$ -	\$ 500
12/31/2014	500	-	500
12/31/2015	1,500	-	1,500
12/31/2016	1,000	-	1,000
12/31/2017	-	-	-

*Drying Beds*

The Water Authority has four drying beds that are rated at a level 2. The Water Authority's policy states that the drying beds will be maintained at level 2 or higher.

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

Year Ended	Budgeted Expenses	Actual Expenses	Difference
12/31/2013	\$ -	\$ -	\$ -
12/31/2014	1,500	-	1,500
12/31/2015	-	-	-
12/31/2016	-	-	-
12/31/2017	-	-	-

**Lakengren Water Authority  
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*Return Pumps*

The Water Authority has two return pumps that are rated at a level 2. The Water Authority's policy states that the return pumps will be maintained at level 2 or higher.

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

<u>Year Ended</u>	<u>Budgeted Expenses</u>	<u>Actual Expenses</u>	<u>Difference</u>
12/31/2013	\$ -	\$ -	\$ -
12/31/2014	5,500	5,254	246
12/31/2015	8,000	7,807	193
12/31/2016	2,000	-	2,000
12/31/2017	5,500	5,295	205

*Wastewater Treatment Plant*

The Water Authority has a wastewater treatment plant that is rated at a level 2. The Water Authority's policy states that the wastewater treatment plant will be maintained at level 2 or higher. The following is a comparison of the Water Authority's budgeted and actual expenses for maintaining the wastewater treatment plant:

<u>Year Ended</u>	<u>Budgeted Expenses</u>	<u>Actual Expenses</u>	<u>Difference</u>
12/31/2013	\$ 7,800	\$ 7,797	\$ 3
12/31/2014	-	-	-
12/31/2015	2,000	-	2,000
12/31/2016	-	-	-
12/31/2017	2,500	-	2,500

*Blower and Polymer Building*

The Water Authority has a blower and polymer building that is rated at a level 2. The Water Authority's policy states that the blower and polymer building will be maintained at level 2 or higher. The following is a comparison of the Water Authority's budgeted and actual expenses for maintaining the blower and polymer building:

<u>Year Ended</u>	<u>Budgeted Expenses</u>	<u>Actual Expenses</u>	<u>Difference</u>
12/31/2013	\$ 1,500	\$ -	\$ 1,500
12/31/2014	-	-	-
12/31/2015	2,000	-	2,000
12/31/2016	-	-	-
12/31/2017	-	-	-



# Dave Yost • Auditor of State

## INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS REQUIRED BY GOVERNMENT AUDITING STANDARDS

Lakengren Water Authority  
Preble County  
24 Lakengren Drive  
Eaton, Ohio 45320

To the Board of Trustees:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the business-type activities and each major fund of the Lakengren Water Authority, Preble County, (the Authority) as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements and have issued our report thereon dated December 13, 2018.

### ***Internal Control Over Financial Reporting***

As part of our financial statement audit, we considered the Authority's internal control over financial reporting (internal control) to determine the audit procedures appropriate in the circumstances to the extent necessary to support our opinions on the financial statements, but not to the extent necessary to opine on the effectiveness of the Authority's internal control. Accordingly, we have not opined on it.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all internal control deficiencies that might be material weaknesses or significant deficiencies. Therefore, unidentified material weaknesses or significant deficiencies may exist. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings that we consider a material weakness. We consider finding 2017-001 to be a material weakness.

***Compliance and Other Matters***

As part of reasonably assuring whether the Authority's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, opining on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

***Purpose of this Report***

This report only describes the scope of our internal control and compliance testing and our testing results, and does not opine on the effectiveness of the Authority's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the Authority's internal control and compliance. Accordingly, this report is not suitable for any other purpose.

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

**Dave Yost**  
Auditor of State  
Columbus, Ohio

December 13, 2018

**LAKENGREN WATER AUTHORITY  
PREBLE COUNTY**

**SCHEDULE OF FINDINGS  
DECEMBER 31, 2017**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b>
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**FINDING NUMBER 2017-001**

**Material Weakness - Infrastructure**

In our audit engagement letter, as required by AU-C Section 210, Terms of Engagement, paragraph .06, management acknowledged its responsibility for the preparation and fair presentation of its financial statements; this responsibility includes designing, implementing and maintaining internal control relevant to preparing and fairly presenting financial statements free from material misstatement, whether due to fraud or error as discussed in AU-C Section 210 paragraphs .A14 & .A16. Governmental Accounting Standards Board (GASB) Cod. 1100 paragraph.101 states a governmental accounting system must make it possible both: (a) to present fairly and with full disclosure the funds and activities of the governmental unit in conformity with generally accepted accounting principles, and (b) to determine and demonstrate compliance with finance-related legal and contractual provisions.

**Ohio Admin. Code § 117-2-02(D)(4)(c)** provides that all local public offices may maintain accounting records in a manual or computerized format. The records used should be based on the nature of operations and services the public office provides, and should consider the degree of automation and other factors. Such records should include capital asset records including such information as the original cost, acquisition date, voucher number, the asset type (land, building, vehicle, etc.), asset description, location, and tag number. Local governments preparing financial statements using generally accepted accounting principles will want to maintain additional data. Capital assets are tangible assets that normally do not change form with use and should be distinguished from repair parts and supply items.

The following issues existed during 2017 regarding Infrastructure Capital Assets:

- Sewer Fund assets such as mixers, meters and generators totaling \$43,732 and Water Fund assets such as valves, hydrants, water meters and wells totaling \$235,000 did not meet the requirements for being reported as infrastructure using the modified approach. These assets should be reclassified from non-depreciable capital assets to depreciable capital assets and should have been depreciated;
- A Water Fund building with a book value of \$10,105, incorrectly posted to the Sewer Fund, did not meet the requirements for being reported as infrastructure using the modified approach. This asset should be reclassified from a non-depreciable capital asset to a depreciable capital asset and should have been depreciated;
- The book value of Sewer Fund basins was overstated by \$10,371;
- There was no evidence of a condition assessment performed on a Sewer Fund asset with a reported book value of \$18,111;
- A Sewer Fund blower and polymer building and blowers had a combined book value of \$83,274. The blowers should have been listed separately from the building as the blowers are inside the building. The Authority could not provide supporting documentation showing the breakdown of the book value of the blowers and the building;
- The following assets were included on the Lakengren Water Authority (LWA) Asset Status report but were omitted from the capital asset listing used to compile the financial statements: Overhead Pipe to Plant, Headworks, High Service Pumps, and Backwash Holding Tank & Pumps. The Authority had no book values for these assets;
- The asset titles on the LWA Asset Status report did not always agree to the information used to compile the financial statements;
- The Authority had a Modified Approach Infrastructure Policy. However, the policy omitted condition assessment information;

**FINDING NUMBER 2017-001  
(Continued)**

- Condition assessment information per the LWA Asset Status report did not always agree to the information included in the Annual Financial Report - Required Supplementary Information (RSI). Likewise, the RSI incorrectly included depreciable assets;
- The Required Supplementary Information did not include a schedule of the assessed condition of infrastructure for the three most recent assessments (per Governmental Accounting Standards Board codification 1400.118); and
- The Management Discussion and Analysis (MD&A) did not include significant changes in assessed conditions of eligible infrastructure vs. previous assessments; a comparison of the current assessment to the established (i.e., planned) condition level; or a discussion on the significant differences from estimated annual maintenance/preservation costs versus actual expenditures during the year (per Governmental Accounting Standards Board codification 2200.109).

Adjustments for the errors noted above were not material and were not posted to the accompanying basic financial statements.

Without maintaining proper infrastructure financial records, there is a risk the infrastructure assets may not be properly recorded and/or the asset value not be properly recorded. The lack of controls over infrastructure assets could result in the financial statements being materially misstated.

The Authority should update, implement and enforce its policies and procedures regarding infrastructure assets to verify that the amounts in the financial statements are accurate, complete, and representative of all assets owned by the Authority. The Authority should evaluate the book values of its capital assets and make adjustments to the accounting records in a timely manner.

**Officials' Response:** We did not receive a response from Officials to this finding.

OHIO AUDITOR OF STATE  
**KEITH FABER**



**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  
JANUARY 15, 2019**