

**LAKENGREN
WATER AUTHORITY**

Basic Financial Statements
(Audited)

For The Fiscal Year Ended

March 31, 2005

BOARD OF TRUSTEES

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Mary Taylor, CPA
Auditor of State

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

We have reviewed the *Independent Auditors' Report* of the Lakengren Water Authority, Preble County, prepared by Julian and Grube, Inc., for the audit period April 1, 2004 to March 31 2005. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

Mary Taylor

MARY TAYLOR, CPA
Auditor of State

January 8, 2007

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**LAKENGREN WATER AUTHORITY
PREBLE COUNTY, OHIO**

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Julian & Grube, Inc.
Serving Ohio Local Governments

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Independent Auditors' Report

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

We have audited the accompanying financial statements of the Lakengren Water Authority, Preble County, Ohio, (the "Authority"), as of and for the fiscal year ended March 31, 2005, which collectively comprise the Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Lakengren Water Authority, Preble County, as of March 31, 2005, and the respective changes in financial position and cash flows for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 21, 2006, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Independent Auditors' Report
Board of Trustees
Page Two

The management's discussion and analysis information on pages 3 through 7 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Julian & Grube, Inc.

Julian & Grube, Inc.
September 21, 2006

LAKENGREN WATER AUTHORITY
Preble County, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended March 31, 2005
Unaudited

The discussion and analysis of the Lakengren Water Authority's (the Water Authority) financial performance provides an overall review of the financial activities for the fiscal year ended March 31, 2005. The intent of this discussion and analysis is to look at the Water Authority's financial performance as a whole; readers should also review the financial statements and the notes to the basic financial statements to enhance their understanding of the Water Authority's financial performance.

Financial Highlights

Key Financial highlights for the fiscal year ended March 31, 2005 are as follows:

- Total net assets decreased \$139,548 which represents a 2.02 percent decrease from the fiscal year ended March 31, 2004.
- Total assets decreased \$217,515 which represents a 2.97 percent decrease from the fiscal year ended March 31, 2004.
- Total liabilities decreased by \$77,967. Current liabilities increased \$11,784. Non-current liabilities decreased by \$89,751 resulting primarily from principal payments on water revenue bonds during the fiscal year ended March 31, 2005.

Using this Financial Report

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

Statement of Net Assets

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

LAKENGREN WATER AUTHORITY
 Preble County, Ohio
 Management's Discussion and Analysis
 For the Fiscal Year Ended March 31, 2005
 Unaudited

Table 1 provides a summary of the Water Authority's net assets for the fiscal year ended March 31, 2005 compared to the fiscal year ended March 31, 2004:

Table 1
Net Assets

	2005	Restated 2004	Change
Assets:			
Current and Other Assets	\$944,495	\$1,093,793	(\$149,298)
Nondepreciable Capital Assets	161,984	217,502	(55,518)
Depreciable Capital Assets, Net	6,021,463	6,034,162	(12,699)
Total Assets	7,127,942	7,345,457	(217,515)
Liabilities:			
Current and Other Liabilities	146,078	134,294	11,784
Long-Term Liabilities	209,527	299,278	(89,751)
Total Liabilities	355,605	433,572	(77,967)
Net Assets:			
Invested in Capital Assets,			
Net of Related Debt	5,892,117	5,875,694	16,423
Restricted	94,089	92,159	1,930
Unrestricted	786,131	944,032	(157,901)
Total Net Assets	\$6,772,337	\$6,911,885	(\$139,548)

The net assets of the Water Authority decreased \$139,548 or 2.02 percent. With usage rates generating revenue which reasonably matches expenses, the financial condition of the Water Authority is relatively constant. The decrease of \$217,515 in total assets resulted primarily from depreciation of capital assets. The decrease of \$77,967 in total liabilities was mainly due to the fiscal year 2005 debt payments. Cash in the Water fund decreased \$209,215 from fiscal year 2004 primarily due to expenditures capitalized as construction in progress for the new water treatment plant project.

LAKENGREN WATER AUTHORITY
 Preble County, Ohio
 Management's Discussion and Analysis
 For the Fiscal Year Ended March 31, 2005
 Unaudited

Table 2 shows the changes in net assets for the fiscal year ended March 31, 2005 compared to fiscal year ended March 31, 2004.

Table 2
Changes in Net Assets

	2005	2004	Change
Operating Revenues:			
Charges for Services	\$856,517	\$858,539	(\$2,022)
Other	10,811	7,249	3,562
Non-Operating Revenues:			
Interest	21,410	27,636	(6,226)
Total Revenues	<u>888,738</u>	<u>893,424</u>	<u>(4,686)</u>
Operating Expenses:			
Personal Services	442,952	434,555	8,397
Fringe Benefits	1,537	5,843	(4,306)
Operations and Maintenance	61,238	71,779	(10,541)
Contractual Services	76,743	55,839	20,904
Supplies and Materials	34,775	54,265	(19,490)
Utilities	79,800	84,159	(4,359)
Depreciation	305,911	271,937	33,974
Other	522	643	(121)
Non-Operating Expenses:			
Loss on Disposal of Capital Assets	825	110	715
Interest and Fiscal Charges	23,983	32,509	(8,526)
Total Expenses	<u>1,028,286</u>	<u>1,011,639</u>	<u>16,647</u>
Decrease in Net Assets	(139,548)	(118,215)	(21,333)
Net Assets at Beginning of Year	6,911,885	7,030,100	(118,215)
Net Assets at End of Year	<u>\$6,772,337</u>	<u>\$6,911,885</u>	<u>(\$139,548)</u>

In total, net assets decreased by \$139,548 during fiscal year 2005. User charges remained constant from fiscal year 2004 to 2005 and total revenues decreased by less than one percent from fiscal year 2004 to 2005. Total expenses also remained constant from fiscal year 2004 to 2005 increasing by less than two percent.

LAKENGREN WATER AUTHORITY
 Preble County, Ohio
 Management's Discussion and Analysis
 For the Fiscal Year Ended March 31, 2005
 Unaudited

Capital Assets

Table 3
Capital Assets, Net of Depreciation

	2005	Restated 2004
Land	\$53,242	\$53,242
Construction in Progress	108,742	164,260
Buildings	51,789	51,499
Vehicles	28,616	16,624
Equipment	40,490	37,841
Infrastructure	5,900,568	5,928,198
Totals	\$6,183,447	\$6,251,664

A review of Table 3 shows that capital assets (net of depreciation) decreased \$68,217. The overall decrease is the result of depreciation of capital asset exceeding capital asset additions, along with an increase in construction in progress for the new water treatment plant.

See Note 8 of the notes to the basic financial statements for more detailed information.

Debt

At March 31, 2005, the Water Authority had water revenue bonds outstanding in the amount of \$300,000; \$95,000 of which is due within one year. This reflects a \$90,000 overall decrease from fiscal year 2004 in the water revenue bonds liability.

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

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

LAKENGREN WATER AUTHORITY
Preble County, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended March 31, 2005
Unaudited

Contacting the Water Authority

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

LAKENGREN WATER AUTHORITY

Statement of Net Assets

Proprietary Funds

March 31, 2005

	WATER	SEWER	TOTAL
ASSETS:			
Current Assets:			
Equity in Pooled Cash and Cash Equivalents	\$371,057	\$252,692	\$623,749
Accrued Interest Receivable	3,866	2,577	6,443
Materials and Supplies Inventory	15,630	52,395	68,025
Accounts Receivable	55,555	69,722	125,277
Prepaid Items	14,174	7,632	21,806
Restricted Assets:			
Investments with Fiscal Agents	94,473	0	94,473
Total Current Assets	554,755	385,018	939,773
Noncurrent Assets:			
Deferred Charges	4,722	0	4,722
Nondepreciable Capital Assets	130,059	31,925	161,984
Depreciable Capital Assets, Net	1,048,309	4,973,154	6,021,463
Total Noncurrent Assets	1,183,090	5,005,079	6,188,169
Total Assets	1,737,845	5,390,097	7,127,942
LIABILITIES:			
Current Liabilities:			
Accounts Payable	3,374	2,354	5,728
Accrued Wages	6,611	5,678	12,289
Intergovernmental Payable	7,108	3,828	10,936
Compensated Absences Payable	11,768	9,973	21,741
Water Revenue Bonds Payable	95,000	0	95,000
Accrued Interest Payable	384	0	384
Total Current Liabilities	124,245	21,833	146,078
Long-term Liabilities:			
Compensated Absences Payable	4,569	3,906	8,475
Water Revenue Bonds Payable	201,052	0	201,052
Total Long-term Liabilities	205,621	3,906	209,527
Total Liabilities	329,866	25,739	355,605
NET ASSETS:			
Invested in Capital Assets, Net of Related Debt	887,038	5,005,079	5,892,117
Restricted for:			
Revenue Bonds Future Debt Service	94,089	0	94,089
Unrestricted	426,852	359,279	786,131
Total Net Assets	\$1,407,979	\$5,364,358	\$6,772,337

See accompanying notes to the basic financial statements

LAKENGREN WATER AUTHORITY
Statement of Revenues, Expenses, and Changes in Net Assets
Proprietary Funds
For the Fiscal Year Ended March 31, 2005

	<u>WATER</u>	<u>SEWER</u>	<u>TOTAL</u>
OPERATING REVENUES:			
Charges for Services	\$479,345	\$377,172	\$856,517
Other	8,049	2,762	10,811
Total Operating Revenues	<u>487,394</u>	<u>379,934</u>	<u>867,328</u>
OPERATING EXPENSES:			
Personal Services	281,402	161,550	442,952
Fringe Benefits	649	888	1,537
Operations and Maintenance	18,285	42,953	61,238
Contractual Services	39,759	36,984	76,743
Supplies and Materials	23,340	11,435	34,775
Utilities	32,637	47,163	79,800
Depreciation	66,461	239,450	305,911
Other	100	422	522
Total Operating Expenses	<u>462,633</u>	<u>540,845</u>	<u>1,003,478</u>
Operating Income (Loss)	<u>24,761</u>	<u>(160,911)</u>	<u>(136,150)</u>
NON-OPERATING REVENUES (EXPENSES):			
Interest	15,607	5,803	21,410
Loss on Disposal of Capital Assets	(825)	0	(825)
Interest and Fiscal Charges	<u>(23,983)</u>	<u>0</u>	<u>(23,983)</u>
Total Non-Operating Revenues (Expenses)	<u>(9,201)</u>	<u>5,803</u>	<u>(3,398)</u>
Change in Net Assets	15,560	(155,108)	(139,548)
Net Assets at Beginning of Year	<u>1,392,419</u>	<u>5,519,466</u>	<u>6,911,885</u>
Net Assets at End of Year	<u>\$1,407,979</u>	<u>\$5,364,358</u>	<u>\$6,772,337</u>

See accompanying notes to the basic financial statements

LAKENGREN WATER AUTHORITY
Statement of Cash Flows
Proprietary Funds
For the Fiscal Year Ended March 31, 2005

	WATER	SEWER	TOTAL
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS			
Cash Flows from Operating Activities:			
Cash Received from Customers	\$469,814	\$373,848	\$843,662
Cash Payments for Employee Services and Benefits	(276,188)	(158,344)	(434,532)
Cash Payments to Suppliers for Goods and Services	(95,281)	(96,398)	(191,679)
Cash Payments for Operations and Maintenance	(18,583)	(43,556)	(62,139)
Other Operating Revenues	8,049	2,762	10,811
Other Operating Expenses	(100)	(422)	(522)
Net Cash Provided by Operating Activities	<u>87,711</u>	<u>77,890</u>	<u>165,601</u>
Cash Flows from Capital and Related Financing Activities:			
Acquisition of Capital Assets	(204,185)	(34,334)	(238,519)
Principal Paid on Mortgage Revenue Bonds	(90,000)	0	(90,000)
Interest Paid on Mortgage Revenue Bonds	(19,926)	0	(19,926)
Net Cash Used for Capital and Related Financing Activities	<u>(314,111)</u>	<u>(34,334)</u>	<u>(348,445)</u>
Cash Flows from Investing Activities:			
Interest	<u>17,185</u>	<u>6,855</u>	<u>24,040</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(209,215)	50,411	(158,804)
Cash and Cash Equivalents Beginning of Year	<u>674,745</u>	<u>202,281</u>	<u>877,026</u>
Cash and Cash Equivalents End of Year	<u>\$465,530</u>	<u>\$252,692</u>	<u>\$718,222</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES			
Operating Income (Loss)	\$24,761	(\$160,911)	(\$136,150)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by Operating Activities			
Depreciation	66,461	239,450	305,911
Changes in Assets and Liabilities:			
Increase in Accounts Receivable	(9,531)	(3,324)	(12,855)
Increase in Prepaids Items	(1,449)	(780)	(2,229)
Increase/(Decrease) in Accounts Payable	1,606	(639)	967
Increase in Accrued Wages Payable	1,431	1,484	2,915
Increase in Intergovernmental Payable	949	512	1,461
Increase in Compensated Absences Payable	3,483	2,098	5,581
Net Cash Provided by Operating Activities	<u>\$87,711</u>	<u>\$77,890</u>	<u>\$165,601</u>

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

See accompanying notes to the basic financial statements

LAKENGREN WATER AUTHORITY
Preble County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended March 31, 2005

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; is legally obligated or has otherwise assumed the responsibility to finance deficits of or provide financial support to the organization; or is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the Water Authority in that the Water Authority approves their budget, the issuance of their debt or the levying of their taxes. The Water Authority has no component units.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

LAKENGREN WATER AUTHORITY
Preble County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended March 31, 2005

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

A. Basis of Presentation

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

The Water Authority uses a single enterprise fund to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts.

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

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

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

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

B. Measurement Focus

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

C. Basis of Accounting

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

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

LAKENGREN WATER AUTHORITY
Preble County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended March 31, 2005

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D. Cash and Cash Equivalents

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

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

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

E. Budgetary Process

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

Appropriations

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

Estimated Resources

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

LAKENGREN WATER AUTHORITY
Preble County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended March 31, 2005

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Encumbrances

At the close of each fiscal 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 fiscal year and need not be reappropriated. The Water Authority had no outstanding encumbrances at March 31, 2005.

A summary of budgetary activity for the fiscal year ended March 31, 2005 appears in Note 4.

F. Inventory

Inventories, which consist primarily of water meters, 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 March 31, 2005 are recorded as prepaid items using the consumption method by recording a current asset for the prepaid amount and reflecting the expense in the year in which services are consumed.

H. Restricted Assets

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

I. Capital Assets

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

LAKENGREN WATER AUTHORITY
Preble County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended March 31, 2005

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

J. Deferred Charges

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

K. 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 employer 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 the employees who have accumulated unpaid leave are paid.

L. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Water Authority or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

LAKENGREN WATER AUTHORITY
Preble County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended March 31, 2005

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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.

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. The Water Authority did not have any capital contributions during the fiscal year ended March 31, 2005.

O. Estimates

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

NOTE 3 - CHANGES IN ACCOUNTING PRINCIPLES

For fiscal year ended March 31, 2005, the Water Authority has implemented *GASB Statement No. 42, "Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries"*, *GASB Statement No. 46, "Net Assets Restricted by Enabling Legislation – an amendment of GASB Statement No. 34,"* and *GASB Technical Bulletin No. 2004-2, "Recognition of Pension and Other Post-Employment Benefit Expenditures/Expenses and Liabilities by Cost Sharing Employers."*

LAKENGREN WATER AUTHORITY
 Preble County, Ohio
 Notes to the Basic Financial Statements
 For the Fiscal Year Ended March 31, 2005

NOTE 3 - CHANGES IN ACCOUNTING PRINCIPLES (continued)

GASB Statement No. 42 establishes accounting and financial reporting standards for the impairment of capital assets. A capital asset is considered impaired when its service utility has declined significantly and unexpectedly. This statement also clarifies and establishes accounting requirements for insurance recoveries. The implementation of this statement had no effect on the Water Authority's financial statements for fiscal year 2005.

GASB Statement No. 46 clarifies how legal enforceability should be applied when determining whether net assets should be reported as restricted. The implementation of this new statement had no effect on the Water Authority's financial statements for fiscal year 2005.

GASB Technical Bulletin No. 2004-2 addresses the amount that should be recognized as an expenditure/expense and as a liability for each period by employers participating in a cost-sharing multiple-employer pension and other post-employment benefit (OPEB) plans. The implementation of this new statement had no effect on the Water Authority's financial statements for fiscal year 2005.

NOTE 4 - BUDGETARY ACTIVITY

As disclosed in Note 2A, the Authority uses a single enterprise fund to maintain its financial records during the fiscal year. Budgetary activity (GAAP basis) for the fiscal year ended March 31, 2005 follows:

Budgeted vs. Actual Revenues	
	Total
Budgeted Revenues	\$885,241
Actual Revenues	888,738
Variance	\$3,497

Budgeted vs. Actual Expenses	
	Total
Budgeted Expenses	\$1,193,548
Actual Expenses	1,028,286
Variance	\$165,262

NOTE 5 - DEPOSITS AND INVESTMENTS

The investment and deposit of the Water Authority's monies are governed by the Lakengren Water Authority Investment Policy. In accordance with these provisions, the Water Authority investments will conform to all applicable laws and regulations governing the investment of public monies, including Chapter 135 of the Ohio Revised Code. These State statutes classify monies held by the Water Authority into three categories.

LAKENGREN WATER AUTHORITY
Preble County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended March 31, 2005

NOTE 5 - DEPOSITS AND INVESTMENTS (continued)

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.

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

Interim deposits are deposits of interim monies. Interim monies are those monies which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Interim deposits must be evidenced by time certificates of deposit, maturing not more than one year from the date of deposit, or by savings or deposit accounts, including pass book accounts.

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

Investments

As of March 31, 2005, the Water Authority had the following investment:

	<u>Fair Value</u>	<u>Maturity</u>
First American Treasury Obligation Money Market Mutual Fund	<u>\$94,473</u>	Average 90 Days

Interest Rate Risk

The Water Authority's investment policy follows State statute, which requires that an investment mature within five years from the date of purchase, unless matched to a specific obligation or debt of the Water Authority, and that an investment must be purchased with the expectation that it will be held to maturity. Repurchase agreements are limited to 30 days and the market value of the securities must exceed the principal value of the agreement by at least two percent and be marked to market daily.

Credit Risk

The First American Treasury Obligation Money Market Mutual Fund carries a rating of Aaa by Moody's. Ohio law requires that this fund be rated in the highest category at the time of purchase by at least one nationally recognized standard rating service.

LAKENGREN WATER AUTHORITY
 Preble County, Ohio
 Notes to the Basic Financial Statements
 For the Fiscal Year Ended March 31, 2005

NOTE 6 - ACCOUNTS RECEIVABLE

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

NOTE 7 - LONG-TERM OBLIGATIONS

Changes in long-term obligations during the fiscal year ended March 31, 2005 were as follows:

	Balance at March 31			Balance at March 31	Amounts Due in
	2004	Increase	Decrease	2005	One Year
Mortgage Revenue Bonds					
5.06% - 1998	\$390,000	\$0	\$90,000	\$300,000	\$95,000
Deferred Amount on Refunding	(6,360)	0	(2,412)	(3,948)	0
Compensated Absences Payable	24,635	33,611	28,030	30,216	21,741
TOTAL Long-Term Obligations	<u>\$408,275</u>	<u>\$33,611</u>	<u>\$115,618</u>	<u>\$326,268</u>	<u>\$116,741</u>

On September 1, 1998, the Water Authority sold an \$845,000 issue of revenue bonds with an average interest rate of 5.06 percent to advance refund \$960,000 of outstanding 1989 Series bonds with an average interest rate of 8.5 percent. The net proceeds of \$811,000 (after payment of \$34,000 in underwriting fees and issuance costs) plus an additional \$218,712 of Water Authority funds were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the 1989 Series bonds. As a result, the 1989 Series bonds are considered to be defeased and the liability for those bonds has been removed from the Water Authority's books and records. Similarly, as no obligation is recorded, neither are the funds held on deposit with the trustee, which will be used to service that obligation.

The advance refunding resulted in a difference of \$27,900 between the reacquisition price and the net carrying amount of the old debt. This difference, reported in the financial statements as a deduction from bonds payable (deferred amount on refunding), is being charged to operations through the year 2008 using the effective-interest method. The Water Authority completed the advance refunding to reduce its total debt service payments through 2014 (the original payoff date for the 1989 Series bonds) by \$664,826, and thereby obtain an economic gain (difference between the present values of the old and new debt service payments of \$51,494. There were no unmatured, unpaid amounts related to the 1989 Series bonds at March 31, 2005.

LAKENGREN WATER AUTHORITY
 Preble County, Ohio
 Notes to the Basic Financial Statements
 For the Fiscal Year Ended March 31, 2005

NOTE 7 - LONG-TERM OBLIGATIONS (continued)

Principal and interest requirements to retire the revenue bonds outstanding at March 31, 2005 are:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>
2006	\$95,000	\$15,632
2007	100,000	10,762
2008	105,000	5,512
Total	<u>\$300,000</u>	<u>\$31,906</u>

NOTE 8 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended March 31, 2005, was as follows:

	<u>Balance At</u> <u>March 31, 2004</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance At</u> <u>March 31, 2005</u>
Capital Assets, Not Being Depreciated:				
Land	\$53,242	\$0	\$0	\$53,242
Construction in Progress	164,260	193,310	(248,828)	108,742
Total Capital Assets Not Being Depreciated	<u>217,502</u>	<u>193,310</u>	<u>(248,828)</u>	<u>161,984</u>
Depreciable Capital Assets:				
Buildings	92,901	5,288	0	98,189
Vehicles	62,436	17,962	(11,400)	68,998
Equipment	156,430	21,959	(9,892)	168,497
Infrastructure	7,916,434	248,828	0	8,165,262
Total Depreciable Capital Assets	<u>8,228,201</u>	<u>294,037</u>	<u>(21,292)</u>	<u>8,500,946</u>
Less Accumulated Depreciation:				
Buildings	(41,402)	(4,998)	0	(46,400)
Vehicles	(45,812)	(5,970)	11,400	(40,382)
Equipment	(118,589)	(18,485)	9,067	(128,007)
Infrastructure	(1,988,236)	(276,458)	0	(2,264,694)
Total Accumulated Depreciation	<u>(2,194,039)</u>	<u>(305,911)</u>	<u>20,467</u>	<u>(2,479,483)</u>
Total Assets Being Depreciated, Net	<u>6,034,162</u>	<u>(11,874)</u>	<u>(825)</u>	<u>6,021,463</u>
Governmental Activities Capital Assets, Net	<u>\$6,251,664</u>	<u>\$181,436</u>	<u>(\$249,653)</u>	<u>\$6,183,447</u>

LAKENGREN WATER AUTHORITY
 Preble County, Ohio
 Notes to the Basic Financial Statements
 For the Fiscal Year Ended March 31, 2005

NOTE 9 - RISK MANAGEMENT

The Water Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. During the fiscal year, the Water Authority contracted with the New Hampshire Insurance Company, National Union Fire Insurance and Granite State Insurance for various types of insurance as follows:

<u>Coverage</u>	<u>Limit</u>	<u>Deductible</u>
Property	\$4,685,795	\$500
General Liability:		
Per Occasion	1,000,000	None
Aggregate	2,000,000	None
Public Officials	1,000,000	10,000
Electronic Data Processing	63,000	250
Systems Breakdown	500,000	1,000
Valuable Papers	100,000	250
Contractors Equipment	262,540	250
Crime:		
Employee Dishonesty	100,000	250
Theft	50,000	250
Automobile:		
Liability	1,000,000	None
Comprehensive	Actual Cash Value	250
Collision	Actual Cash Value	500

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

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

LAKENGREN WATER AUTHORITY
Preble County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended March 31, 2005

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

The Water Authority participates in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans. The traditional plan is a cost-sharing, multiple-employer defined benefit pension plan. The member-directed plan is a defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20 percent per year). Under the member-directed plan, members accumulate retirement assets equal to the value of the member and vested employer contributions, plus any investment earnings. The combined plan is a cost-sharing, multiple-employer defined benefit pension plan that has elements of both a defined benefit and a defined contribution plan. Under the combined plan, employer contributions are invested by the retirement system to provide a formula retirement benefit similar to the traditional plan benefit. Member contributions, whose investment is self-directed by the member, accumulate retirement assets in a manner similar to the member-directed plan.

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

For the fiscal year ended March 31, 2005, the Water Authority's employees participated in the traditional plan and were required to contribute 8.5 percent of their annual covered salaries. The Water Authority's contribution rate for pension benefits for the fiscal year ended March 31, 2004 was 9.55 percent. The Ohio Revised code provides statutory authority for member and employer contributions.

The Water Authority's required contributions for pension obligations to the traditional and combined plans for the years ended March 31, 2005, 2004, and 2003 were \$32,649, \$30,259, and \$38,418 respectively; 76.39 percent has been contributed for 2005 and 100 percent for 2004 and 2003. There were no contributions to the member-directed plan for the fiscal year ended March 31, 2005.

LAKENGREN WATER AUTHORITY
Preble County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended March 31, 2005

NOTE 11 - POSTEMPLOYMENT BENEFITS

The Ohio Public Employees Retirement System (OPERS) provides postretirement health care coverage to age and service retirees with ten or more years of qualifying Ohio service credit with either the traditional or combined plans. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available. Members of the member-directed plan do not qualify for postretirement health care coverage. The health care coverage provided by the retirement system is considered an Other Postemployment Benefit as described in *GASB Statement No. 12*. A portion of each employer's contribution to the traditional or combined plans is set aside for the funding of postretirement health care based on authority granted by State statute. The 2004 local government employer contribution rate was 13.55 percent of covered payroll (16.7 percent for public safety and law enforcement); 4 percent of covered payroll was the portion that was used to fund health care.

Benefits are advance-funded using the entry age normal actuarial cost method. Significant actuarial assumptions, based on OPERS's latest actuarial review performed as of December 31, 2004, include a rate of return on investments of 8 percent, an annual increase in active employee total payroll of 4 percent compounded annually (assuming no change in the number of active employees) and an additional increase in total payroll of between .50 percent and 6.3 percent based on additional annual pay increases. Health care premiums were assumed to increase at the projected wage inflation rate plus an additional factor ranging from 1 to 6 percent annually for the next eight years and 4 percent annually after eight years.

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

The number of active contributing participants in the traditional and combined plans was 376,109. Actual Water Authority contributions for the fiscal year ended March 31, 2004 which were used to fund postemployment benefits were \$13,675. The actual contribution and the actuarially required contribution amounts are the same. The actuarial value of OPERS's net assets available for payment of benefits at December 31, 2004, (the latest information available) was \$10.8 billion. The actuarially accrued liability and the unfunded actuarial accrued liability were \$29.5 billion and \$18.7 billion, respectively.

On September 9, 2004, the OPERS Retirement Board adopted a Health Care Preservation Plan (HCPP) with an effective date of January 1, 2007. The HCPP restructures OPERS' health care coverage to improve the financial solvency of the fund in response to increasing health care costs. Member and employer contribution rates increased as of January 1, 2006, which will allow additional funds to be allocated to the health care plan.

LAKENGREN WATER AUTHORITY
Preble County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended March 31, 2005

NOTE 12 - OTHER EMPLOYEE BENEFITS

A. Insurance Benefits

The Water Authority provides health insurance to employees through Anthem Blue Cross/Blue Shield. The employees share the cost of the monthly premium with the Water Authority. The Water Authority also provides dental and vision insurance through Superior Dental and life insurance through Anthem Life.

B. Compensated Absences

Accumulated Unpaid Vacation Leave

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

Accumulated Unpaid Sick Leave

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

NOTE 13 - LEASES

The Water Authority entered into an operating lease with a property owner outside the Lakengren Subdivision for real property. The lease of the property allows for extracting water found in or under the leased property. The term of this lease commenced April 1, 2004 and will remain 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 fiscal year 2005 were \$550 a month, totaling \$6,600. The monthly lease payments shall be adjusted on the first day of April, 2005 and annually thereafter, to the government's published rate of inflation.

The estimated future minimum lease payments, at the current rate, as of March 31, 2005 are as follows:

LAKENGREN WATER AUTHORITY
 Preble County, Ohio
 Notes to the Basic Financial Statements
 For the Fiscal Year Ended March 31, 2005

NOTE 13 - LEASES (continued)

Fiscal Year Ending March 31,	Amount	Fiscal Year Ending March 31,	Amount
2006	\$6,600	2051-2055	\$33,000
2007	6,600	2056-2060	33,000
2008	6,600	2061-2065	33,000
2009	6,600	2066-2070	33,000
2010	6,600	2071-2075	33,000
2011-2015	33,000	2076-2080	33,000
2016-2020	33,000	2081-2085	33,000
2021-2025	33,000	2086-2090	33,000
2026-2030	33,000	2091-2095	33,000
2031-2035	33,000	2096-2100	33,000
2036-2040	33,000	2101-2103	\$19,800
2041-2045	33,000	Total	<u>\$646,800</u>
2046-2050	33,000		

NOTE 14 - SUBSEQUENT EVENTS

In April, 2005 the Water Authority entered into an agreement with Brumbaugh Construction, Inc. for the construction of the new Water Treatment Plant for a total amount of \$1,674,000.

Key Engineering Group, Inc. prepared a water utility rate analysis in July, 2004. Following their recommendations, the Lakengren Water Authority Board of Trustees added a \$6 monthly assessment to all Lakengren Water Authority Customers, including lot owners who pay the availability charge, effective with the bill due on April 15, 2005. This assessment is for the purpose of replacing the old water treatment plant built in 1969.

On April 18, 2005 the Lakengren Water Authority Board of Trustees obtained an OWDA loan in the amount of \$1,795,137 for the construction of the new water treatment plant. The OWDA loan is payable in 20 years with an interest rate of 2.75%. Payments are scheduled to begin in January, 2007.

NOTE 15 - CONTINGENT LIABILITIES

Litigation

The Authority is currently not involved in litigation that the management or its legal counsel anticipates a loss.



Julian & Grube, Inc.
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**Report on Internal Control Over Financial Reporting and on
Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance With *Government Auditing Standards***

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

We have audited the financial statements of Lakengren Water Authority Preble County, (the “Authority”) as of and for the fiscal year ended March 31, 2005, which collectively comprise the Authority’s basic financial statements and have issued our report thereon dated September 21, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Authority’s internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to the management of the Authority in a separate letter dated September 21, 2006.

Board of Trustees
Lakengren Water Authority

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted a certain matter that we have reported to the management of the Authority in a separate letter dated September 21, 2006.

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

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

Julian & Grube, Inc.
September 21, 2006



Mary Taylor, CPA
Auditor of State

LAKENGREN WATER AUTHORITY

PREBLE COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
JANUARY 23, 2007**