

LAKENGREN WATER AUTHORITY

Basic Financial Statements
(Audited)

For The Year Ended

December 31, 2007

BOARD OF TRUSTEES



Mary Taylor, CPA
Auditor of State

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

We have reviewed the *Independent Auditor's Report* of the Lakengren Water Authority, Preble County, prepared by Julian & Grube, Inc., for the audit period January 1, 2007 through December 31, 2007. 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

August 19, 2008

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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 Auditor's Report

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

We have audited the accompanying financial statements of the business-type activities and each major enterprise fund of the Lakengren Water Authority, Preble County, Ohio, as of and for the year ended December 31, 2007, which collectively comprise Lakengren Water Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Lakengren Water Authority's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and each major enterprise fund of the Lakengren Water Authority, Preble County, Ohio, as of December 31, 2007, and the respective changes in financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 3A, Lakengren Water Authority has restated its net assets at January 1, 2007 to properly account for its cash and cash equivalents activities in the respective funds.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 12, 2008, on our consideration of the Lakengren Water Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Independent Auditor's Report
Board of Trustees
Page Two

The management's discussion and analysis on pages 3 through 7 and Condition Assessment of the Lakengren Water Authority's Infrastructure Report Under the Modified Approach information on pages 25 through 31, are not required parts of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquires of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

Julian & Grube, Inc.
June 12, 2008

**LAKENGREN WATER AUTHORITY
PREBLE COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2007**

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, 2007. 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 2007 are as follows:

- In total, net assets were \$6,850,698 at December 31, 2007 which represents a 0.27% decrease from December 31, 2006. Water fund net assets were \$1,955,518 and sewer fund net assets were \$4,895,180 at December 31, 2007.
- The Water Authority had operating revenues of \$1,016,830, operating expenses of \$1,015,051, non-operating revenues of \$33,956 and non operating expenses of \$54,613 for fiscal year 2007. Total change in net assets for the fiscal year was a decrease of \$18,878.

Using these Basic Financial Statements

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 Assets* and *Statement of Revenues, Expenses and Changes in Net Assets* 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 Assets, Statement of Revenues, Expenses, and Changes in Net Assets and the Statement of Cash Flows

These documents look at all financial transactions and ask the question, "How did we do financially during 2007?" The Statement of Net Assets and the Statement of Revenues, Expenses and Changes in Net Assets answer this question. These statements include *all assets, liabilities, 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 assets* and changes in those assets. This change in net assets 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 8 and 9 of this report.

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 10 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 11-24 of this report.

**LAKENGREN WATER AUTHORITY
PREBLE COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2007

The table below provides a summary of the Water Authority's net assets at December 31, 2007 and December 31, 2006.

	Net Assets	
	<u>2007</u>	<u>2006</u>
<u>Assets</u>		
Current assets	\$ 1,045,672	\$ 1,094,171
Noncurrent assets	176,994	175,227
Nondepreciable capital assets	4,746,940	4,716,662
Depreciable capital assets, net	<u>2,674,025</u>	<u>2,835,867</u>
 Total assets	 <u>8,643,631</u>	 <u>8,821,927</u>
<u>Liabilities</u>		
Current liabilities	239,687	234,376
Long-term liabilities	<u>1,553,246</u>	<u>1,717,975</u>
 Total liabilities	 <u>1,792,933</u>	 <u>1,952,351</u>
<u>Net Assets</u>		
Invested in capital assets, net of related debt	5,712,662	5,682,648
Restricted	176,813	173,879
Unrestricted	<u>961,223</u>	<u>1,013,049</u>
 Total net assets	 <u><u>\$ 6,850,698</u></u>	 <u><u>\$ 6,869,576</u></u>

Over time, net assets can serve as a useful indicator of a government's financial position. At December 31, 2007, the Water Authority's net assets totaled \$6,850,698. Total net assets decreased 0.27% from December 31, 2006.

At year-end, capital assets represented 85.85% 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, 2007 were \$5,712,662.

**LAKENGREN WATER AUTHORITY
PREBLE COUNTY, OHIO**

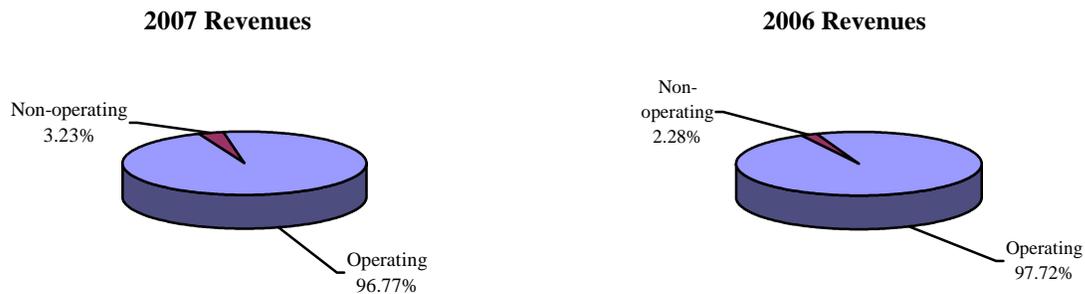
**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2007**

The table below shows the changes in net assets for fiscal year 2007 and the nine month period ending December 31, 2006.

	Change in Net Assets	
	<u>2007</u>	<u>2006</u>
<u>Operating Revenues:</u>		
Charges for services	\$ 1,011,136	\$ 979,938
Other	<u>5,694</u>	<u>15,634</u>
Total operating revenue	<u>1,016,830</u>	<u>995,572</u>
<u>Operating Expenses:</u>		
Personal services and fringe benefits	501,199	324,922
Operations and maintenance	34,785	50,078
Contractual services	156,421	139,385
Supplies and materials	72,530	59,997
Utilities	81,271	68,321
Depreciation	161,842	126,778
Other	<u>7,003</u>	<u>616</u>
Total operating expenses	<u>1,015,051</u>	<u>770,097</u>
<u>Non-operating Revenues (Expenses):</u>		
Interest income	33,956	23,191
Interest and fiscal charges	<u>(54,613)</u>	<u>(17,515)</u>
Total non-operating revenues	<u>(20,657)</u>	<u>5,676</u>
Change in net assets	(18,878)	231,151
Net assets at beginning of year	<u>6,869,576</u>	<u>6,638,425</u>
Net assets at end of year	<u>\$ 6,850,698</u>	<u>\$ 6,869,576</u>

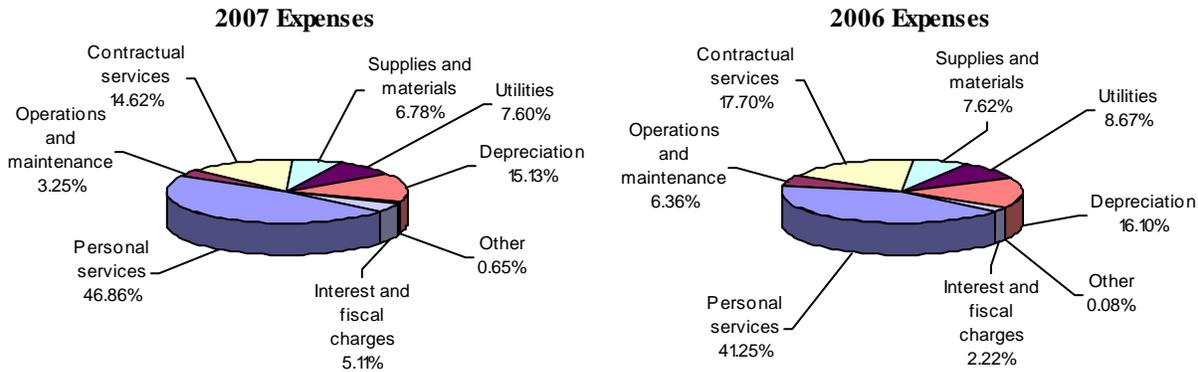
That Water Authority changed its fiscal year end from March 31 to December 31 beginning April 1, 2006. Therefore, the period ended December 31, 2006, contains only nine months of activity compared to 12 months of activity for 2007. This explains the increase in revenues and expenses during fiscal year 2007.

The charts below illustrate the revenues and expenses for the Water Authority during fiscal year 2007 and the nine month period ending December 31, 2006.



**LAKENGREN WATER AUTHORITY
PREBLE COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2007**



Capital Assets

At the end of fiscal year 2007, the Water Authority had \$7,420,965 invested in capital assets consisting of land, construction in progress, nondepreciable infrastructure, buildings, vehicles, equipment and depreciable infrastructure. The following table shows December 31, 2007's balances compared to December 31, 2006 (see note 7 to the basic financial statements):

**Capital Assets at December 31
(Net of Depreciation)**

	<u>Business-Type Activities</u>	
	<u>2007</u>	<u>2006</u>
Land	\$ 67,842	\$ 67,842
Construction-in-progress	18,878	-
Nondepreciable infrastructure	4,660,220	4,648,820
Buildings	64,175	71,524
Vehicles	27,444	34,664
Equipment	18,913	23,830
Depreciable Infrastructure	<u>2,563,493</u>	<u>2,705,849</u>
Totals	<u>\$ 7,420,965</u>	<u>\$ 7,552,529</u>

Debt

At December 31, 2007, the Water Authority had mortgage revenue bonds outstanding in the amount of \$105,000, all of which is due within one year.

The mortgage revenue bonds were issued in 1998 to advance refund \$960,000 of outstanding 1989 Series bonds with an average interest rate of 8.5%. Principal payments will be made from the water fund.

The Water Authority has an OWDA loan outstanding at December 31, 2007. The total amount of the loan outstanding is \$1,603,635 and bears an interest rate of 2.75% with a final maturity of July 1, 2026. The loan was issued for the construction of a new water treatment plant. The debt payments will be paid from the water fund.

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

**LAKENGREN WATER AUTHORITY
PREBLE COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2007**

Economic Conditions and Outlook

The Board of Trustees does not expect to increase rates in 2008 for water and sewer. In 2008, the Water Authority sold bonds to finance construction of an office complex, of which the contractor is expected to be awarded in July 2008.

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, 209 Lakengren Drive West, Eaton, Ohio 45320-2858, 937-456-4455 or email to accountspayable@lakengrenh20.org.

**BASIC
FINANCIAL STATEMENTS**

**LAKENGREN WATER AUTHORITY
PREBLE COUNTY, OHIO**

STATEMENT OF NET ASSETS
ENTERPRISE FUNDS AND TOTAL BUSINESS-TYPE ACTIVITIES
DECEMBER 31, 2007

	Business-Type Activities - Enterprise Funds		
	Water	Sewer	Total
Assets:			
Current assets:			
Equity in pooled cash and cash equivalents	\$ 561,227	\$ 206,018	\$ 767,245
Receivables (net of allowance for uncollectables):			
Accounts	78,723	151,636	230,359
Accrued interest	6,266	1,547	7,813
Materials and supplies inventory	6,514	23,820	30,334
Prepaid items	5,504	4,417	9,921
Total current assets	<u>658,234</u>	<u>387,438</u>	<u>1,045,672</u>
Non-current assets:			
Restricted assets:			
Cash and cash equivalents with fiscal agent . . .	176,813	-	176,813
Deferred charges	181	-	181
Nondepreciable capital assets	2,616,937	2,130,003	4,746,940
Depreciable capital assets, net	265,921	2,408,104	2,674,025
Total noncurrent assets	<u>3,059,852</u>	<u>4,538,107</u>	<u>7,597,959</u>
Total assets	<u>3,718,086</u>	<u>4,925,545</u>	<u>8,643,631</u>
Liabilities:			
Current liabilities:			
Accounts payable	5,645	5,508	11,153
Accrued wages	3,800	4,272	8,072
Compensated absences payable	6,994	6,208	13,202
Intergovernmental payable	6,969	6,892	13,861
Water revenue bond payable	104,849	-	104,849
OWDA loans payable	65,275	-	65,275
Accrued interest payable	23,275	-	23,275
Total current liabilities	<u>216,807</u>	<u>22,880</u>	<u>239,687</u>
Long-term liabilities:			
Compensated absences payable	7,401	7,485	14,886
OWDA loans payable	1,538,360	-	1,538,360
Total long-term liabilities	<u>1,545,761</u>	<u>7,485</u>	<u>1,553,246</u>
Total liabilities	<u>1,762,568</u>	<u>30,365</u>	<u>1,792,933</u>
Net Assets:			
Invested in capital assets, net of related debt	1,174,555	4,538,107	5,712,662
Restricted for:			
Revenue bonds future debt service	176,813	-	176,813
Unrestricted	604,150	357,073	961,223
Total net assets	<u>\$ 1,955,518</u>	<u>\$ 4,895,180</u>	<u>\$ 6,850,698</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**LAKENGREN WATER AUTHORITY
PREBLE COUNTY, OHIO**

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
ENTERPRISE FUNDS AND TOTAL BUSINESS-TYPE ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2007

	Business-Type Activities - Enterprise Funds		
	Water	Sewer	Total
Operating revenues:			
Charges for services.	\$ 634,266	\$ 376,870	\$ 1,011,136
Other.	4,910	784	5,694
Total operating revenue.	<u>639,176</u>	<u>377,654</u>	<u>1,016,830</u>
Operating expenses:			
Personal services and fringe benefits.	244,999	256,200	501,199
Operations and maintenance.	13,430	21,355	34,785
Contractual services.	116,892	39,529	156,421
Supplies and materials.	27,608	44,922	72,530
Utilities.	28,417	52,854	81,271
Depreciation.	29,831	132,011	161,842
Other.	4,010	2,993	7,003
Total operating expenses.	<u>465,187</u>	<u>549,864</u>	<u>1,015,051</u>
Operating income (loss).	<u>173,989</u>	<u>(172,210)</u>	<u>1,779</u>
Non-operating revenues (expenses):			
Interest income.	31,030	2,926	33,956
Interest charges.	(54,613)	-	(54,613)
Total non-operating revenues (expenses).	<u>(23,583)</u>	<u>2,926</u>	<u>(20,657)</u>
Change in net assets.	150,406	(169,284)	(18,878)
Net assets at beginning of year (restated) . . .	<u>1,805,112</u>	<u>5,064,464</u>	<u>6,869,576</u>
Net assets at end of year	<u>\$ 1,955,518</u>	<u>\$ 4,895,180</u>	<u>\$ 6,850,698</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**LAKENGREN WATER AUTHORITY
PREBLE COUNTY, OHIO**

STATEMENT OF CASH FLOWS
ENTERPRISE FUNDS AND TOTAL BUSINESS-TYPE ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2007

	Business-Type Activities - Enterprise Funds		
	Water	Sewer	Total
Cash flows from operating activities:			
Cash received from customers.	\$ 637,870	\$ 398,737	\$ 1,036,607
Cash received from other operations.	4,910	784	5,694
Cash payments for employee services and benefits. . .	(238,859)	(248,975)	(487,834)
Cash payments for operations and maintenance. . . .	(13,430)	(21,355)	(34,785)
Cash payments for contractual services.	(116,799)	(47,132)	(163,931)
Cash payments for supplies and materials.	(26,027)	(38,456)	(64,483)
Cash payments for utilities.	(28,888)	(50,003)	(78,891)
Cash payments for other expenses.	(4,010)	(2,993)	(7,003)
Net cash provided by (used in) operating activities. . . .	<u>214,767</u>	<u>(9,393)</u>	<u>205,374</u>
Cash flows from capital and related financing activities:			
Acquisition of capital assets	(20,839)	(9,439)	(30,278)
Principal paid on mortgage revenue bonds.	(100,000)	-	(100,000)
Principal paid on OWDA loans.	(63,516)	-	(63,516)
Interest paid on mortgage revenue bonds.	(8,139)	-	(8,139)
Interest paid on OWDA loans.	(45,413)	-	(45,413)
Net cash used in capital and related financing activities. .	<u>(237,907)</u>	<u>(9,439)</u>	<u>(247,346)</u>
Cash flows from investing activities:			
Interest received	27,393	5,530	32,923
Net cash provided by investing activities	<u>27,393</u>	<u>5,530</u>	<u>32,923</u>
Net increase (decrease) in cash and cash equivalents. . .	4,253	(13,302)	(9,049)
Cash and cash equivalents at beginning of year (restated)	<u>733,787</u>	<u>219,320</u>	<u>953,107</u>
Cash and cash equivalents at end of year.	<u>\$ 738,040</u>	<u>\$ 206,018</u>	<u>\$ 944,058</u>
Reconciliation of operating income (loss) to net cash provided (used in) operating activities:			
Operating income (loss)	\$ 173,989	\$ (172,210)	\$ 1,779
Adjustments:			
Depreciation	29,831	132,011	161,842
Changes in assets and liabilities:			
Decrease in accounts receivable.	3,604	21,867	25,471
Decrease in materials and supplies inventory.	1,581	6,466	8,047
Decrease in prepaid items.	2,244	1,922	4,166
Increase (decrease) in accounts payable.	3,364	(2,331)	1,033
Increase in accrued wages payable.	651	1,274	1,925
Increase (decrease) in intergovernmental payable. . .	(31)	1,669	1,638
(Decrease) in compensated absences.	(466)	(61)	(527)
Net cash provided by (used in) operating activities. . . .	<u>\$ 214,767</u>	<u>\$ (9,393)</u>	<u>\$ 205,374</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, 2007**

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. The Water Authority has no component units.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Basis of Presentation

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

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

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

**LAKENGREN WATER AUTHORITY
PREBLE COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

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 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.

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: Cash and Cash Equivalents with Fiscal Agent".

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

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

**LAKENGREN WATER AUTHORITY
PREBLE COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

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

Estimated Resources

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

Encumbrances

As part of formal budgetary control, purchase orders, contracts, and other commitments for the expenditure of funds are recorded in order to reserve the portion of the applicable appropriation. At the close of each year, the unencumbered balance of each appropriation reverts to the respective fund from which it was appropriated and becomes subject to future appropriations. The encumbered appropriation balance is carried forward to the succeeding year and need not be reappropriated. The Water Authority had no outstanding encumbrances at December 31, 2007.

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, 2007 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 and cash equivalents 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.

**LAKENGREN WATER AUTHORITY
PREBLE COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

I. Capital Assets

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

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:

<u>Description</u>	<u>Estimated Lives</u>
Buildings	5-20 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. Condition appraisals are performed on an annual basis for infrastructure assets in accordance with the Water Authority capital asset policy. When using the modified approach, expenses to extend the life of infrastructure assets are charged to expense, while expenses that add to or improve infrastructure assets are capitalized.

J. Deferred Charges

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

K. Gain on Advance Refunding

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

**LAKENGREN WATER AUTHORITY
PREBLE COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

L. Compensated Absences

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the Water Authority will compensate the employee for the benefits through paid time off or some other means. The Water Authority records a liability for all accumulated unused vacation leave when earned for all employees.

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

M. Net Assets

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

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

N. Operating and Nonoperating Revenues and Expenses

Operating revenues are those revenues that are generated directly from primary activities. For the Water Authority, these revenues are charges for services and miscellaneous reimbursements. Operating expenses are necessary costs incurred to provide the goods or services that are the primary activity of the Water Authority. Non-operating revenues are those revenues that are not generated directly from primary activities. For the Water Authority, this revenue is interest income. Non-operating 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, this expense is interest expense.

O. Contributions of Capital

Contributions of capital arise from outside contributions of capital assets or outside contributions of resources restricted to capital acquisition and construction. The Water Authority did not receive any capital contributions during 2007.

P. Estimates

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

**LAKENGREN WATER AUTHORITY
PREBLE COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Prior Period Adjustment

A prior period adjustment is required to properly report funds/activities between the Water and Sewer funds. The fund reclassifications had no effect on total net assets of the business-type activities as previously reported. The fund reclassifications had the following effect on the net assets of the Water and Sewer enterprise funds as follows:

	Enterprise Funds		Total
	Water	Sewer	Business-type Activities
Net assets at December 31, 2006	\$ 1,703,561	\$ 5,166,015	\$ 6,869,576
Fund reclassifications	101,551	(101,551)	-
Restated net assets at January 1, 2007	\$ 1,805,112	\$ 5,064,464	\$ 6,869,576

The cash and cash equivalents reported on the statement of cash flows has been restated to reflect the fund reclassifications described above. The cash and cash equivalents in the Water fund have been increased by \$101,551 from the previously stated balance at December 31, 2006 of \$632,236 to the restated balance at January 1, 2007 of \$733,787. The cash and cash equivalents in the Sewer fund have been decreased by \$101,551 from the previously stated balance at December 31, 2006 of \$320,871 to the restated balance at January 1, 2007 of \$219,320.

B. Change in Accounting Principles

For 2007, the Water Authority has implemented GASB Statement No. 48 "Sales and Pledges of Receivables and Intra-Entity Transfers of Assets and Future Revenues". GASB Statement No. 48 established criteria to ascertain whether certain transactions should be regarded as sales or as collateralized borrowings, as well as disclosure requirements for future revenues that are pledged and sold. The implementation of GASB Statement No. 48 did not have an effect on the financial statements of the Water Authority; however, additional disclosure related to revenues pledged for the repayment of revenue bonds has been provided in Note 6.

NOTE 4 - DEPOSITS AND INVESTMENTS

The investment and deposit 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.

**LAKENGREN WATER AUTHORITY
PREBLE COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

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

Interim deposits are deposits of interim monies. Interim monies are those monies which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Interim deposits must be evidenced by time certificates of deposit, maturing not more than one year from the date of deposit, or by savings or deposit accounts, including pass book accounts. Interim monies may be deposited or invested in notes, bonds or other obligations of the United State or any agency or instrumentality thereof, or in obligations of the State or any political subdivision thereof.

A. Deposits

Custodial credit risk for deposits is the risk that in the event of bank failure, the Water Authority will not be able to recover deposits or collateral securities that are in the possession of an outside party. At year-end, the carrying value of the Water Authority deposits was \$767,245. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of December 31, 2007, \$371,114 of the Water Authority's bank balance of \$771,114 was exposed to custodial credit risk as described below, while \$400,000 was cover by the Federal Deposit Insurance Corporation.

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

B. Investments

As of December 31, 2007, the Water Authority had the following investment:

	Fair Value	Maturity
First American Treasury Obligation		
Money Market Mutual Fund	\$176,813	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.

Credit Risk: The First American Treasury Obligation Money Market Mutual Fund carries a rating of Aaa by Moody's. The Water Authority has no investment policy that addresses credit risk.

**LAKENGREN WATER AUTHORITY
PREBLE COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

Custodial Credit Risk: For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Water Authority will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. The Water Authority has no investment policy dealing with investment custodial risk beyond the requirement in Ohio law that prohibits payments for investments prior to the delivery of the securities representing such investments to the treasurer or qualified trustee.

Concentration of Credit Risk: The Water Authority places no limit on the amount that may be invested in any one issuer.

C. Reconciliation of Cash and Investments to the Statement of Net Assets

The following is a reconciliation of cash and investments as reported in the footnote above to cash and investments as reported on the Statement of Net Assets as of December 31, 2007:

<u>Cash and investments per footnote</u>	
Carrying amount of deposits	\$ 767,245
Investments	<u>176,813</u>
Total	<u>\$ 944,058</u>
 <u>Cash and investments per Statement of Net Assets</u>	
Business-type activities	<u>\$ 944,058</u>
Total	<u><u>\$ 944,058</u></u>

NOTE 5 - ACCOUNTS RECEIVABLE

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

**LAKENGREN WATER AUTHORITY
PREBLE COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007

NOTE 6 - LONG-TERM OBLIGATIONS

Changes in long-term obligations during the year ended December 31, 2007 were as follows:

	Balance at December 31, <u>2006</u>	<u>Increase</u>	<u>Decrease</u>	Balance at December 31, <u>2007</u>	Amounts Due in <u>One Year</u>
Mortgage Revenue Bonds					
5.06% - 1998 - \$845,000	\$ 205,000	\$ -	\$ (100,000)	\$ 105,000	\$ 105,000
Deferred Amount on Refunding	(1,057)	-	906	(151)	(151)
OWDA Loan - 2.75% - 2005 - \$1,667,151	1,667,151	-	(63,516)	1,603,635	65,275
Compensated Absences Payable	<u>28,615</u>	<u>17,691</u>	<u>(18,218)</u>	<u>28,088</u>	<u>13,202</u>
Total Long-Term Obligations	<u>\$ 1,899,709</u>	<u>\$ 17,691</u>	<u>\$ (180,828)</u>	<u>\$ 1,736,572</u>	<u>\$ 183,326</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. 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 is the funds held on deposit with the trustee, which will be used to service that obligation.

The Water Authority has pledged future water customer revenues, net of specified operating expenses, to repay the Series 1998 water refunding revenue bonds. The Series 1998 water refunding revenue bonds are payable solely from water customer net revenues and are payable through 2008. Annual principal and interest payments on the bonds are expected to require approximately 50 percent of net revenues. At December 31, 2007, the total principal and interest remaining to be paid on the Series 1998 water refunding revenue bonds is \$107,756. Principal and interest paid for the current year and total customer net revenues were \$108,139 and \$203,820, respectively.

The Water Authority has an Ohio Water Development Authority (OWDA) Loan outstanding at December 31, 2007. The total amount of the loan issued is \$1,667,151 and bears an interest rate of 2.75 percent with final maturity on July 1, 2026. The loan was issued for the construction of a new water treatment plant. The debt payments will be paid from the water fund.

Principal and interest requirements to retire the bonds and loan outstanding at December 31, 2007 are:

Year ending December 31,	Revenue Bond Principal	Revenue Bond Interest	OWDA Loan Principal	OWDA Loan Interest
2008	\$ 105,000	\$ 2,756	\$ 65,275	\$ 43,654
2009	-	-	67,082	41,847
2010	-	-	68,940	39,989
2011	-	-	70,848	38,081
2012	-	-	72,810	36,119
2013 - 2017	-	-	395,434	149,213
2018 - 2022	-	-	453,296	91,350
2023 - 2026	-	-	<u>409,950</u>	<u>25,770</u>
Total	<u>\$ 105,000</u>	<u>\$ 2,756</u>	<u>\$ 1,603,635</u>	<u>\$ 466,023</u>

**LAKENGREN WATER AUTHORITY
PREBLE COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007

NOTE 7 - CAPITAL ASSETS

Capital asset activity during 2007 was as follows:

	Balance at 12/31/2006	Additions	Deletions	Balance at 12/31/2007
Capital Assets, Not Being Depreciated:				
Land	\$ 67,842	\$ -	\$ -	\$ 67,842
Construction in Progress	-	18,878	-	18,878
Infrastructure	4,648,820	11,400	-	4,660,220
Total Capital Assets Not Being Depreciated	4,716,662	30,278	-	4,746,940
Depreciable Capital Assets:				
Buildings	144,752	-	-	144,752
Vehicles	89,817	-	-	89,817
Equipment	165,319	-	-	165,319
Infrastructure	4,068,446	-	-	4,068,446
Total Depreciable Capital Assets	4,468,334	-	-	4,468,334
Less Accumulated Depreciation:				
Buildings	(73,228)	(7,349)	-	(80,577)
Vehicles	(55,153)	(7,220)	-	(62,373)
Equipment	(141,489)	(4,917)	-	(146,406)
Infrastructure	(1,362,597)	(142,356)	-	(1,504,953)
Total Accumulated Depreciation	(1,632,467)	(161,842)	-	(1,794,309)
Total Assets Being Depreciated, Net	2,835,867	(161,842)	-	2,674,025
Governmental Activities Capital Assets, Net	\$ 7,552,529	\$ (131,564)	\$ -	\$ 7,420,965

The construction in progress at year-end represents costs incurred on the design and construction of the Water Authority's new administration building.

**LAKENGREN WATER AUTHORITY
PREBLE COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007

NOTE 8 - 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 2007, the Water Authority contracted with the Arch Insurance Company for various types of insurance as follows:

Coverage	Limit	Deductible
Property	\$4,725,795	\$500
General Liability:		
Per Occasion	1,000,000	None
Aggregate	2,000,000	None
Public Officials	1,000,000	None
Electronic Data		
Processing	50,000	500
Systems Breakdown	500,000	None
Valuable Papers	100,000	500
Contractors Equipment	37,360	500
Crime:		
Employee Dishonesty	\$100,000	\$500
Employee Theft	50,000	500
Money and Securities	25,000	500
Automobile:		
Liability	1,000,000	None
Comprehensive	Actual Cash Value	250
Collision	Actual Cash Value	500

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

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

NOTE 9 - OTHER EMPLOYEE BENEFITS

A. Insurance Benefits

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

**LAKENGREN WATER AUTHORITY
PREBLE COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007

NOTE 9 - OTHER EMPLOYEE BENEFITS - (Continued)

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.

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

NOTE 10 - PENSION PLAN

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 in which the member invests both member and employer contributions (employer contributions vest over five years at 20% per year). Under the Member-Directed Plan, members accumulate retirement assets equal to the value of 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 Pension 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 Pension and the 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, Attention: Finance Director, 277 E. Town St., Columbus, OH 43215-4642 or by calling (614) 222-5601 or (800) 222-7377.

For the year ended December 31, 2007, the Water Authority employees participated in the Traditional Pension Plan and were required to contribute 9.5% of their annual covered salaries. The Water Authority's contribution rate for pension benefits for 2007 was 8.85% for the period January 1, 2007 through June 30, 2007 and 7.85% for the period July 1, 2007 through December 31, 2007. For those classifications, the Water Authority's pension contributions were 12.17% of covered payroll for the period January 1, 2007 through June 30, 2007 and 11.17% of covered payroll for the period July 1, 2007 through December 31, 2007. The Ohio Revised Code provides statutory authority for member and employer contributions.

**LAKENGREN WATER AUTHORITY
PREBLE COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007

NOTE 10 - PENSION PLAN - (Continued)

The Water Authority's required contributions for pension obligations to the Traditional Pension and Combined Plans for the year ended December 31, 2007, the nine months ended December 31, 2006, and the fiscal year March 31, 2006 were \$51,007, \$24,430, and \$33,793 respectively; 92.79% has been contributed for 2007 and 100% has been contributed for 2006 and 2005. There were no contributions to the member-directed plan for the year ended December 31, 2007.

NOTE 11 - POSTEMPLOYMENT BENEFITS

The Ohio Public Employees Retirement System (OPERS) provides post-employment health care coverage to age and service retirees with ten or more years of qualifying Ohio service credit with either the Traditional Pension or Combined Plans. Health care coverage for disability recipients and primary survivor recipients is available. Members of the Member-Directed Plan do not qualify for post-employment health care coverage. The health care coverage provided by OPERS is considered an Other Post-employment Benefit as described in GASB Statement No. 12, "Disclosure of Information on Post-employment Benefits other than Pension Benefits by State and Local Government Employers". A portion of each employer's contribution to the Traditional Pension or Combined Plans is set aside for the funding of post-employment health care based on authority granted by State Statute. The 2007 local government employer contribution rate was 13.85% of covered payroll (17.17% for public safety and law enforcement); 5.00% of covered payroll was the portion that was used to fund health care for the period January 1, 2007 through June 30, 2007 and 6.00% of covered payroll was the portion that was used to fund health care for the period July 1, 2007 through December 31, 2007.

Benefits are advance-funded using the entry age actuarial cost method. Significant actuarial assumptions, based on OPERS's latest actuarial review performed as of December 31, 2006, include a rate of return on investments of 6.50%, an annual increase in active employee total payroll of 4.00% compounded annually (assuming no change in the number of active employees) and an additional increase in total payroll of between .50% and 6.30% based on additional annual pay increases. Health care premiums were assumed to increase at the projected wage inflation rate (4.00%) plus and an additional factor ranging from .50% to 5.00% for the next eight years. In subsequent years, (nine and beyond) health care costs were assumed to increase at 4.00%.

All investments are carried at market value. For actuarial valuation purposes, a smoothed market approach is used. Under this approach, assets are adjusted to reflect 25% of unrealized market appreciation or depreciation on investment assets annually, not to exceed a 12% corridor.

The number of active contributing participants in the Traditional Pension and Combined Plans was 374,979 as of December 31, 2007. The Water Authority's actual employer contributions for 2007 which were used to fund post-employment benefits were \$33,764. The actual contribution and the actuarially required contribution amounts are the same. OPERS's net assets available for payment of benefits at December 31, 2006 (the latest information available) were \$12.0 billion. At December 31, 2006 (the latest information available), the actuarially accrued liability and the unfunded actuarial accrued liability were \$30.7 billion and \$18.7 billion, respectively.

The Health Care Preservation Plan (HCPP) adopted by the OPERS Board of Trustees on September 9, 2004, was effective January 1, 2007. Member and employer contribution rates increased as of January 1, 2006, January 1, 2007 and January 1, 2008, which allowed additional funds to be allocated to the health care plan.

**LAKENGREN WATER AUTHORITY
PREBLE COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007

NOTE 12 - 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, 2007 were \$588 a month through March 31, 2007. The monthly payments increased by 3.3 percent to \$607 per month effective April 1, 2007. The monthly lease payments shall be adjusted annually to the government's published rate of inflation.

The estimated future minimum lease payments, at the current rate, as of December 31, 2007 are as follows:

<u>Year Ending December 31,</u>	<u>Amount</u>	<u>Year Ending December 31,</u>	<u>Amount</u>
2008	\$ 7,284	2048 - 2052	\$ 36,420
2009	7,284	2053 - 2057	36,420
2010	7,284	2058 - 2062	36,420
2011	7,284	2063 - 2067	36,420
2012	7,284	2068 - 2072	36,420
2013 - 2017	36,420	2073 - 2077	36,420
2018 - 2022	36,420	2078 - 2082	36,420
2023 - 2027	36,420	2083 - 2087	36,420
2028 - 2032	36,420	2088 - 2092	36,420
2033 - 2037	36,420	2093 - 2097	36,420
2038 - 2042	36,420	2098 - 2102	36,420
2043 - 2047	36,420	2103	<u>7,284</u>
		Total	<u>\$ 699,264</u>

NOTE 13 - SUBSEQUENT EVENT

On March 21, 2008, the Water Authority sold bonds (\$620,000 untaxed and \$130,000 taxed), due in an annual principal payment and semi-annual interest payments, with final maturity in 2017. The untaxed interest rate is 4.02% and the taxed interest rate is 6.03%. The proceeds will be used to construct a new administrative complex.

REQUIRED SUPPLEMENTARY INFORMATION

**LAKENGREN WATER AUTHORITY
PREBLE COUNTY, OHIO**

REQUIRED SUPPLEMENTARY INFORMATION
CONDITION ASSESSMENT OF THE INFRASTRUCTURE REPORTED
UNDER THE MODIFIED APPROACH
FOR THE YEAR ENDED DECEMBER 31, 2007

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 year ended December 31, 2007.

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 two or higher. The following is a summary of the conditional assessment for the wells:

Well Condition	Number of Wells	Percent of Total
1 - Excellent	3	37.50%
2 - Good	5	62.50%
Total	8	100.00%

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
12/31/2007	\$7,900	\$7,277	\$ 623

**LAKENGREN WATER AUTHORITY
PREBLE COUNTY, OHIO**

REQUIRED SUPPLEMENTARY INFORMATION
CONDITION ASSESSMENT OF THE INFRASTRUCTURE REPORTED
UNDER THE MODIFIED APPROACH
FOR THE YEAR ENDED DECEMBER 31, 2007

Treatment Plant

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

<u>Year Ended</u>	<u>Budgeted Expenses</u>	<u>Actual Expenses</u>	<u>Difference</u>
12/31/2007	\$1,000	\$1,482	\$ (482)

Generator

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

<u>Year Ended</u>	<u>Budgeted Expenses</u>	<u>Actual Expenses</u>	<u>Difference</u>
12/31/2007	\$700	\$0	\$ 700

Control Panel

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

<u>Year Ended</u>	<u>Budgeted Expenses</u>	<u>Actual Expenses</u>	<u>Difference</u>
12/31/2007	\$500	\$0	\$ 500

Meters

The Water Authority has 1,365 water meters. The Water Authority's policy states that 80 percent of all water meters will be maintained at level two or higher. The following is a summary of the conditional assessment for the meters:

<u>Meter Condition</u>	<u>Number of Water Meters</u>	<u>Percent of Total</u>
2 - Good	1,365	100.00%
Total	<u>1,365</u>	<u>100.00%</u>

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

<u>Year Ended</u>	<u>Budgeted Expenses</u>	<u>Actual Expenses</u>	<u>Difference</u>
12/31/2007	\$3,000	\$1,184	\$ 1,816

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 two or higher. The following is a comparison of the Water Authority's budgeted and actual expenses for maintaining the water towers:

<u>Year Ended</u>	<u>Budgeted Expenses</u>	<u>Actual Expenses</u>	<u>Difference</u>
12/31/2007	\$10,000	\$9,470	\$ 530

Shutoff Valves

The Water Authority has 177 water shutoff valves. The Water Authority's policy states that 80 percent of all shutoff valves will be maintained at level two or higher. The following is a summary of the conditional assessment for the shutoff valves:

<u>Shutoff Valves Condition</u>	<u>Number of Shutoff Valves</u>	<u>Percent of Total</u>
1 - Excellent	8	4.52%
2 - Good	165	93.22%
3 - Fair	4	2.26%
Total	<u>177</u>	<u>100.00%</u>

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

<u>Year Ended</u>	<u>Budgeted Expenses</u>	<u>Actual Expenses</u>	<u>Difference</u>
12/31/2007	\$6,000	\$0	\$ 6,000

Hydrants

The Water Authority has 119 hydrants consisting of fire and flushing hydrants, and all are rated at a level two. The Water Authority's policy states that 80 percent of all hydrants will be maintained at level two or higher.

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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>
12/31/2007	\$600	\$565	\$ 35

B. Sewer Fund

Manholes

The Water Authority has 576 manholes. The Water Authority's policy states that 80 percent of all manholes will be maintained at level two or higher. The following is a summary of the conditional assessment for the manholes:

<u>Manholes Condition</u>	<u>Number of Manholes</u>	<u>Percent of Total</u>
1 - Excellent	2	0.34%
2 - Good	557	96.70%
3 - Fair	17	2.95%
Total	<u>576</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>
12/31/2007	\$1,000	\$1,249	\$ (249)

Lift Stations

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

<u>Year Ended</u>	<u>Budgeted Expenses</u>	<u>Actual Expenses</u>	<u>Difference</u>
12/31/2007	\$16,000	\$7,816	\$ 8,184

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 two or higher.

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

<u>Grinder Pump Condition</u>	<u>Number of Grinder Pumps</u>	<u>Percent of Total</u>
2 - Good	110	79.71%
3 - Fair	19	13.77%
4 - Poor	9	6.52%
Total	<u>138</u>	<u>100.00%</u>

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

<u>Year Ended</u>	<u>Budgeted Expenses</u>	<u>Actual Expenses</u>	<u>Difference</u>
12/31/2007	\$14,000	\$13,618	\$ 382

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

<u>Year Ended</u>	<u>Budgeted Expenses</u>	<u>Actual Expenses</u>	<u>Difference</u>
12/31/2007	\$6,000	\$3,508	\$ 2,492

Aerators

The Water Authority has five aerators, consisting of tornado and 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 two or higher. The following is a comparison of the Water Authority's budgeted and actual expenses for maintaining the aerators:

<u>Year Ended</u>	<u>Budgeted Expenses</u>	<u>Actual Expenses</u>	<u>Difference</u>
12/31/2007	\$4,700	\$3,917	\$ 783

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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 two or higher. The following is a comparison of the Water Authority's budgeted and actual expenses for maintaining the downdraft mixer:

<u>Year Ended</u>	<u>Budgeted Expenses</u>	<u>Actual Expenses</u>	<u>Difference</u>
12/31/2007	\$500	\$0	\$ 500

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

<u>Year Ended</u>	<u>Budgeted Expenses</u>	<u>Actual Expenses</u>	<u>Difference</u>
12/31/2007	\$1,000	\$0	\$ 1,000

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 two or higher. The following is a comparison of the Water Authority's budgeted and actual expenses for maintaining the RBC Units:

<u>Year Ended</u>	<u>Budgeted Expenses</u>	<u>Actual Expenses</u>	<u>Difference</u>
12/31/2007	\$1,000	\$1,539	\$ (539)

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 two or higher. The following is a comparison of the Water Authority's budgeted and actual expenses for maintaining the UV lights:

<u>Year Ended</u>	<u>Budgeted Expenses</u>	<u>Actual Expenses</u>	<u>Difference</u>
12/31/2007	\$800	\$558	\$ 242

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

<u>Year Ended</u>	<u>Budgeted Expenses</u>	<u>Actual Expenses</u>	<u>Difference</u>
12/31/2007	\$800	\$313	\$ 487

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 two 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>
12/31/2007	\$400	\$867	\$ (467)

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 two or higher. The following is a comparison of the Water Authority's budgeted and actual expenses for maintaining the Blower and Polymer Building:

<u>Year Ended</u>	<u>Budgeted Expenses</u>	<u>Actual Expenses</u>	<u>Difference</u>
12/31/2007	\$1,400	\$700	\$ 700



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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 business-type activities and each major enterprise fund of the Lakengren Water Authority, Preble County, Ohio, as of and for the year ended December 31, 2007, which collectively comprise the Lakengren Water Authority's basic financial statements and have issued our report thereon dated June 12, 2008. As disclosed in Note 3A, Lakengren Water Authority has restated its net assets at January 1, 2007 to properly account for its cash and cash equivalents activities in the respective funds. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Lakengren Water Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Lakengren Water Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Lakengren Water Authority's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Lakengren Water Authority's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Lakengren Water Authority's financial statements that is more than inconsequential will not be prevented or detected by the Lakengren Water Authority's internal control. We consider the deficiency described in the accompanying schedule or findings and responses to be a significant deficiency in internal control over financial reporting. We consider the deficiency described in the accompanying schedule of findings and responses as 2007-LWA-001 to be a significant deficiency in internal control over financial reporting.

Board of Trustees
Lakengren Water Authority

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

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we consider the significant deficiency described above, as item 2007-LWA-001 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Lakengren Water Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit; and accordingly, we do not express such an opinion. The results of our tests disclosed one instance of noncompliance or other matter that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and responses as item 2007-LWA-002.

Lakengren Water Authority's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. We did not audit Lakengren Water Authority's responses and, accordingly, we express no opinion on them.

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



Julian & Grube, Inc.
June 12, 2008

**LAKENGREN WATER AUTHORITY
PREBLE COUNTY, OHIO**

**SCHEDULE OF FINDINGS AND RESPONSES
DECEMBER 31, 2007**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS	
Finding Number	2007-LWA-001

Significant Deficiency/Material Weakness

In May of 2006, the American Institute of Certified Public Accountants (AICPA), the national professional organization for certified public accountants, issued its Statement on Auditing Standards (SAS) No. 112, *Communicating Internal Control Related Matters Identified in an Audit*. This standard became effective for audits of financial statements for periods ending on or after December 15, 2006.

The AICPA establishes auditing standards generally accepted in the United States that certified public accountants and government auditors must follow in conducting audits of state and local governments. SAS No. 112 establishes standards, responsibilities and guidance for auditors during a financial statement audit engagement for identifying and evaluating a client's internal control over financial reporting. This new standard requires the audit to report *in writing* to management and the governing body any control deficiencies found during the audit that are considered significant deficiencies and/or material weaknesses. To this end, SAS No. 112 lists specific control deficiencies that should be regarded as at least a significant deficiency and a strong indicator of a material weakness in internal control.

The Lakengren Water Authority has restated its cash and cash equivalents at December 31, 2006 between funds. Amounts reported at December 31, 2006 were restated to properly record this activity in their respective funds due to where the proceeds came from to purchase the certificate of deposit.

These changes in presentation resulted in a prior period adjustment to the following funds: Water fund increased \$101,551 and Sewer fund decreased \$101,551.

The presentation of materially correct financial statements and the related footnotes is the responsibility of management. This responsibility remains intact even if management decides to outsource this function for efficiency purposes or any other reason.

In either case, it is important that control procedures are developed to enable management to identify, prevent, detect and correct potential misstatements in the financial statements and footnotes. In addition, management should not rely on its auditor to perform this control procedure as auditors must remain independent.

We recommend Lakengren Water Authority implement control procedures related to financial reporting that enables management to identify, prevent, detect and correct potential misstatements in the financial statements and footnotes.

Client Response: Management concurs with the restatement and will attempt to record and identify transactions properly with accounting principles generally accepted in the United States of America.

**LAKENGREN WATER AUTHORITY
PREBLE COUNTY, OHIO**

**SCHEDULE OF FINDINGS AND RESPONSES
DECEMBER 31, 2007**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS - (Continued)	
Finding Number	2007-LWA-002

Ohio Revised Code Section 5705.41 (D) requires that no orders or contracts involving the disbursement of monies are to be made unless there is a certificate of the fiscal officer that the amount required for the order or contract has been lawfully appropriated and is in the treasury or in the process of collection to the credit of an appropriate fund free from any previous encumbrances.

The Water Authority did not process fiscal officer certificates for the year ended December 31, 2007 prior to expending funds. While a listing of all disbursements is provided to the Board of Trustees at each meeting (if applicable) prior to payment, no fiscal officer certificates were issued.

Without timely certification, the Water Authority may expend more funds than available in the treasury, in the process of collection or than funds appropriated. In addition, by purchasing items prior to Board of Trustee approval or absent the fiscal officer's certificate process, the potential for unnecessary purchases or items for improper public purpose cannot be prevented if approval is after the fact.

We recommend that the Water Authority implement a policy and procedure for the use of fiscal officer certificates to help ensure that the disbursements are timely certified. This will help ensure that all monies expended are lawfully appropriated and available in the treasury or in the process of collection. The Water Authority should issue approved fiscal officer certificates and consider using regular blanket and super blanket purchase orders, and/or "Then and Now" certificates where applicable.

Client Response: The Water Authority Fiscal Officer will attempt to utilize the fiscal officer certificate system as required by the Ohio Revised Code.



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
SEPTEMBER 2, 2008**