

**LAKENGREN
WATER AUTHORITY**

General Purpose Financial Statements
(Audited)

For The Fiscal Year Ended

March 31, 2002

BOARD OF TRUSTEES



STATE OF OHIO
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

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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 Trimble, Julian & Grube, Inc., for the audit period April 1, 2001 through March 31, 2002. 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.

A handwritten signature in black ink, appearing to read "Jim Petro".

JIM PETRO
Auditor of State

October 15, 2002

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**LAKENGREN WATER AUTHORITY
PREBLE COUNTY, OHIO**

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TRIMBLE, 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 general purpose financial statements of the Lakengren Water Authority, Preble County, Ohio, (the "Authority"), as of and for the fiscal year ended March 31, 2002, as listed in the table of contents. These general purpose financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these general purpose 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 general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose 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 general purpose financial statements referred to above present fairly, in all material respects, the financial position of the Lakengren Water Authority, Ohio, as of March 31, 2002, and the results of its operations and its 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 July 11, 2002, on our consideration of the Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Trimble, Julian & Grube, Inc.
July 11, 2002

**LAKENGREN WATER AUTHORITY
PREBLE COUNTY, OHIO**

**BALANCE SHEET
MARCH 31, 2002**

ASSETS	<u>2002</u>
CURRENT ASSETS	
Cash and cash equivalents - unrestricted	\$ 750,292
Cash and cash equivalents - restricted	<u>122,569</u>
Total cash and cash equivalents	872,861
Accrued interest receivable	2,163
Accounts receivable	103,707
Repair parts inventory	57,687
Prepays	<u>19,742</u>
TOTAL CURRENT ASSETS	<u>1,056,160</u>
FIXED ASSETS	
Fixed assets	8,251,662
Less: accumulated depreciation	<u>(1,592,090)</u>
Net fixed assets	6,659,572
Construction in progress	<u>60,475</u>
TOTAL FIXED ASSETS	<u>6,720,047</u>
DEFERRED ASSETS	
Unamortized bond issue costs	15,345
Engineering costs	<u>725</u>
TOTAL DEFERRED ASSETS	<u>16,070</u>
TOTAL ASSETS	<u><u>\$ 7,792,277</u></u>
LIABILITIES AND EQUITY	
CURRENT LIABILITIES	
Accounts payable	\$ 5,467
Long-term debt payable within one year	80,000
Accrued other expenses	<u>29,703</u>
TOTAL CURRENT LIABILITIES	<u>115,170</u>
LONG-TERM DEBT	
Revenue bonds payable	555,000
Less portion payable within one year	(80,000)
Deferred amount on refunding	<u>(12,639)</u>
TOTAL LONG-TERM DEBT	<u>462,361</u>
TOTAL LIABILITIES	<u>577,531</u>
EQUITY	
Contributed capital	5,413,141
Retained earnings	<u>1,801,605</u>
TOTAL EQUITY	<u>7,214,746</u>
TOTAL LIABILITIES AND EQUITY	<u><u>\$ 7,792,277</u></u>

THE NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT.

**LAKENGREN WATER AUTHORITY
PREBLE COUNTY, OHIO**

**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN EQUITY
FOR THE FISCAL YEAR ENDED MARCH 31, 2002**

	Water	Sewer	General	Total
OPERATING REVENUES				
Charges for Services	\$ 461,721	\$ 289,421	\$ -	\$ 751,142
Penalties	-	-	19,478	19,478
Total operating revenues	461,721	289,421	19,478	770,620
OPERATING EXPENSES				
Wages	77,241	81,697	113,038	271,976
Payroll taxes and employee benefits	11,384	12,041	16,658	40,083
Pension expense	10,404	11,004	15,224	36,632
Bad debts (recoveries)	-	-	973	973
Supplies and lab tests	31,561	25,148	13,520	70,229
Depreciation and amortization	86,942	227,445	6,075	320,462
Subcontractors	560	3,995	-	4,555
Utilities and telephone	24,211	41,139	5,381	70,731
Repairs and maintenance	16,623	60,340	10,457	87,420
Professional fees	5,766	1,201	5,692	12,659
Insurance	-	-	14,179	14,179
Miscellaneous	806	2,163	2,920	5,889
Total operating expenses	265,498	466,173	204,117	935,788
Net operating income (loss)	196,223	(176,752)	(184,639)	(165,168)
NONOPERATING REVENUE AND EXPENSE				
Interest revenue	47,968	-	-	47,968
Other nonoperating revenue	9,631	216,664	-	226,295
Interest expense	(40,754)	-	-	(40,754)
Total nonoperating revenue and expense	16,845	216,664	-	233,509
NET INCOME (LOSS)	\$ 213,068	\$ 39,912	\$ (184,639)	68,341
RETAINED EARNINGS, APRIL 1, 2001				1,733,264
RETAINED EARNINGS, MARCH 31, 2002				\$ 1,801,605
CONTRIBUTED CAPITAL, APRIL 1, 2001				\$ 5,639,436
DEPRECIATION - CONTRIBUTED CAPITAL				(226,295)
CONTRIBUTED CAPITAL, MARCH 31, 2002				\$ 5,413,141

THE NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT.

**LAKENGREN WATER AUTHORITY
PREBLE COUNTY, OHIO**

STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED MARCH 31, 2002

	2002
CASH FLOWS FROM OPERATING ACTIVITIES:	
Net Operating Loss	\$ (165,168)
Adjustments to reconcile net operating loss to net cash provided by operating activities:	
Depreciation and amortization	320,462
Change in assets and liabilities:	
(Increase) in accounts receivable	(7,832)
(Increase) in inventory	(1,128)
(Increase) in prepaids	(19,742)
Decrease in deferred assets	5,954
(Decrease) in accounts payable	(1,356)
Increase in accrued other expenses	2,514
Decrease in deferred amount on refunding	3,852
Net cash provided by operating activities	137,556
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	
Acquisition of capital assets	(86,426)
Principal retirement	(80,000)
Interest charges	(40,754)
Net cash used in capital and related financing activities	(207,180)
CASH FLOWS FROM INVESTING ACTIVITIES:	
Interest received	53,705
Net cash provided by investing activities	53,705
NET DECREASE IN CASH AND CASH EQUIVALENTS	(15,919)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	888,780
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 872,861

THE NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT.

**LAKENGREN WATER AUTHORITY
PREBLE COUNTY, OHIO**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED MARCH 31, 2002**

NOTE 1 - DESCRIPTION OF THE ENTITY

The Lakengren Water Authority (the “Authority”) was organized under the provisions of Section 6119 of the Ohio Revised Code (O.R.C.) by the Common Pleas Court of Preble County, Ohio, for the purpose of operating a potable water production and distribution system and a wastewater collection and treatment system for the Lakengren community. The Board of Trustees is responsible for the fiscal control of the assets and the operating funds of the Authority.

The Authority operates under a three member Board of Trustees who are appointed by the Lakengren Property Owners Association for 3-year terms. All members are full-time resident property owners in the Lakengren community. The Authority is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio.

Management believes the financial statements included in this report represent all of the funds of the Authority over which management has direct operating control.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The general purpose financial statements 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 most significant of the Authority’s accounting policies are described below.

A. REPORTING ENTITY

The Authority’s reporting entity has been defined in accordance with GASB Statement No. 14, “The Financial Reporting Entity”. The GPFS includes the fund for which the Authority is “accountable”. Accountability as described in GASB Statement No. 14 was evaluated based on financial accountability, the nature and significance of the potential component unit’s (PCU) relationship with the Authority and whether exclusion would cause the Authority’s GPFS to be misleading or incomplete. Among the factors considered were: separate legal standing; appointment of a voting majority of PCU’s board; fiscal dependency and whether a benefit or burden relationship exists; imposition of will; and the nature and significance of the PCU’s relationship with the Authority.

**LAKENGREN WATER AUTHORITY
PREBLE COUNTY, OHIO**

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED MARCH 31, 2002

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

Based on the foregoing criteria, there were no PCU's for the fiscal year ended March 31, 2002 in accordance with GASB Statement No. 14.

B. FUNCTIONAL ALLOCATION OF EXPENSES

The costs of providing water and sewer services and conducting general operations (principally: billing, collection, and management oversight) have been summarized on a functional basis in the "Statement of Revenues, Expenses and Changes in Equity". Accordingly, certain costs have been allocated among the activities benefitted based upon usage by each activity.

C. BASIS OF PRESENTATION - FUND ACCOUNTING

The accounts of the Authority are maintained on the basis of fund accounting. The operations of this fund are accounted for with a set of self-balancing accounts that are comprised of its assets, liabilities, equity, and revenues and expenses. The following fund type is used by the Authority:

PROPRIETARY FUND:

A proprietary fund is used to account for all the Authority's ongoing activities which are similar to those found in the private sector. The following proprietary fund type is utilized by the Authority:

Enterprise Funds

These funds account for operations that are similar to private business enterprises where management intends that the significant costs of providing certain goods or services will be recovered through user charges. The Authority had the following significant enterprise fund:

Water and Sewer Fund - This fund receives charges for services from residents to cover the cost of providing these utilities.

**LAKENGREN WATER AUTHORITY
PREBLE COUNTY, OHIO**

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED MARCH 31, 2002

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

D. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

The Authority prepares its financial statements on the accrual basis of accounting. Revenues are recognized in the period earned and expenses are recognized in the period incurred. Unbilled water and sewer utility service receivables are recognized as revenue at year end.

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. The proprietary fund is accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of the fund are included on the balance sheet. This measurement focus emphasizes the determination of net income.

Equity (i.e., net total assets) is segregated into contributed capital and retained earnings components. Proprietary fund type operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in net total assets.

E. INVENTORY

Inventories, which consist primarily of water meters and repair parts are valued at the lower of cost (using first-in, first-out) or market. Inventories are expensed as consumed.

F. CASH AND CASH EQUIVALENTS

For reporting purposes, the Authority considers "Cash and Cash Equivalents" to be cash on hand, demand deposits, and all investments held by the Authority with a maturity date less than or equal to three months from the date of purchase. Interest income earned by the Authority totaled \$47,968 for the fiscal year ended March 31, 2002.

G. BUDGETS

The Ohio Revised Code requires that a budget be prepared annually. The Authority budgets on a GAAP basis.

**LAKENGREN WATER AUTHORITY
PREBLE COUNTY, OHIO**

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED MARCH 31, 2002

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

1. *Appropriations*

Budgetary expenditures (that is, expenses and encumbrances) may not exceed appropriations at the fund or line item level of control, and appropriations may not exceed estimated resources. The Board of Trustees 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.

2. *Estimated Resources*

Estimated resources include estimates of revenue to be earned, and retained earnings as of April 1. The County Budget Commission is not required to approve estimated resources.

3. *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 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 Authority had no outstanding encumbrances at March 31, 2002.

A summary of fiscal 2002 budgetary activity appears in Note 3.

H. RESTRICTED CASH

The Authority maintains a restricted cash account. This restricted cash account relates to the Authority's bond retirement. These funds are restricted to pay principal and interest charges due in fiscal year ended 2003 and thereafter until maturity (2008).

**LAKENGREN WATER AUTHORITY
PREBLE COUNTY, OHIO**

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED MARCH 31, 2002

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

I. FIXED ASSETS AND DEPRECIATION

Assets with a cost exceeding \$1,000 are recorded at cost and depreciation is computed principally using the straight-line method over the estimated useful lives of the assets. Routine maintenance, repairs, and renewals are charged to income as incurred. Renewals and betterments which substantially increase the life of an asset are capitalized. At retirement or sale, the cost of assets, less the related accumulated depreciation, is removed from the accounts and resulting gains or losses are included in income.

J. DEFERRED CHARGES

Bond issue costs - Costs incurred to issue revenue bonds are capitalized and amortized on a straight-line basis over the redemption period.

Engineering costs - Costs incurred for engineering studies in connection with a wellhead protection plan are capitalized and amortized on a straight-line basis over 5 years.

K. CONTRIBUTED CAPITAL

Special assessments for capital improvements projects and the fair market value of assets contributed to the Authority were recorded as contributed capital. The carrying value of such contributed capital is reduced by depreciation and amortization expense related to such assets. Due to the implementation of GASB 33, there were no additions to contributed capital in fiscal 2002.

L. STATEMENT OF CASH FLOWS

The Authority's financial statements have been prepared in accordance with GASB Statement No. 9, "Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting." For purposes of the statement of cash flows, the Authority considers all highly liquid investments with a maturity of three months or less from the date of purchase to be cash equivalents.

**LAKENGREN WATER AUTHORITY
PREBLE COUNTY, OHIO**

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED MARCH 31, 2002

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

M. FINANCIAL REPORTING FOR PROPRIETARY FUND TYPES

The Authority's financial statements have been prepared in accordance with GASB Statement No. 20, "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting." The Authority accounts for its proprietary activities in accordance with all applicable GASB pronouncements, as well as pronouncements of the Financial Accounting Standards Board (FASB) and its predecessors issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

N. COMPENSATED ABSENCES

Compensated absences of the Authority consist of vacation and sick time to the extent that payment to the employees for these absences are attributable to services already rendered and are not contingent on a specific event that is outside the control of the Authority and the employees.

In accordance with provisions of GASB Statement No. 16, "Accounting for Compensated Absences", a liability for vacation leave is accrued if, a) the employees' rights to payment are attributable to services already rendered, and b) it is probable that the employer will compensate the employees for the benefits through paid time off or other means, such as cash payment at termination or retirement.

O. ESTIMATES

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

NOTE 3 - CHANGE IN ACCOUNTING PRINCIPLES

For the fiscal year ended March 31, 2002, the Authority has implemented Governmental Accounting Statement No. 33, *Accounting and Financial Reporting for Non exchange Transactions* and GASB Statement No. 36, *Recipient Reporting for Certain Shared Nonexchange Revenues*, an amendment to GASB No. 33. This statement established accounting and reporting guidelines for non exchange transactions in which a government receives or gives value without directly receiving (or giving) equal value in exchange. Implementation of this statement did not effect the financial statements as of March 31, 2001.

**LAKENGREN WATER AUTHORITY
PREBLE COUNTY, OHIO**

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED MARCH 31, 2002

NOTE 4 - BUDGETARY COMPLIANCE

Budgetary activity on a GAAP basis for the fiscal year ended March 31, 2002:

Budgeted vs. Actual Receipts

Budgeted Receipts	\$1,004,777
Actual Receipts	<u>1,044,883</u>
Variance - Favorable	<u>\$ 40,106</u>

Budgeted vs. Actual Budgetary Basis Expenditures

Budgeted Expenditures	\$ 987,274
Actual Expenditures	<u>976,542</u>
Variance - Favorable	<u>\$ 10,732</u>

NOTE 5 - CASH AND CASH EQUIVALENTS

State statues classify monies held by the 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 Authority's 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 Authority has identified as not required for use within the current two 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 date of deposit, or by savings accounts, including passbook accounts.

**LAKENGREN WATER AUTHORITY
PREBLE COUNTY, OHIO**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED MARCH 31, 2002**

NOTE 5 - CASH AND CASH EQUIVALENTS - (Continued)

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

Monies held by the Authority which are not considered active are classified as inactive. Inactive monies may be deposited or invested in the following securities:

1. United States Treasury Notes, bills, bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal or interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAR Ohio).
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred eighty days from the date of purchase in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time; and

**LAKENGREN WATER AUTHORITY
PREBLE COUNTY, OHIO**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED MARCH 31, 2002**

NOTE 5 - CASH AND CASH EQUIVALENTS - (Continued)

8. Under limited circumstances, debt interests rated in either of the two highest rating classification by at least two nationally recognized rating agencies.

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the Authority and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the treasurer or qualified trustee or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

DEPOSITS

For the fiscal year ended March 31, 2002, the carrying amount of the Authority's deposits, were \$872,861 and the bank balance was \$907,111. Of the bank balance, \$359,652 was covered by federal depository insurance and the remaining balance of \$511,441 was uninsured and uncollateralized as defined by GASB even though it was covered by collateral held by third party trustees, pursuant to Ohio Revised Code Section 135.181, in single institution collateral pools securing all public funds on deposits with specific depository institutions. Although all state statutory requirements for the deposit of money has been followed, non-compliance with federal requirements could potentially subject the Authority to a successful claim by the FDIC.

Ohio Revised Code Chapter 135, Uniform Depository Act, authorizes pledging of pooled securities in lieu of pledging specific securities. Specifically, a designated public depository may pledge a single pool of eligible securities to secure the repayment of all public monies deposited in the financial institution, provided that at all times the total value of the securities so pledged is at least equal to 110% of the total amount of all public deposits secured by the pool, including the portion of such deposits covered by any federal deposit insurance.

**LAKENGREN WATER AUTHORITY
PREBLE COUNTY, OHIO**

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED MARCH 31, 2002

NOTE 6 - FIXED ASSETS

A summary of the Authority's fixed assets at March 31, 2002 are as follows:

	2002
Land - Water	\$ 17,742
Land - Sewer	30,000
Land - General	5,500
Systems - Water	1,599,071
Systems - Sewer	6,225,818
Vehicles - Water	23,596
Vehicles - Sewer	30,150
Office Equipment - General	66,790
Operating Equipment - Water	73,127
Operating Equipment - Sewer	81,420
Buildings	98,448
Total Fixed Assets	8,251,662
Less: Accumulated Depreciation	(1,592,090)
Net Fixed Assets	\$ 6,659,572

NOTE 7 - CONSTRUCTION IN PROGRESS

Construction in progress at March 31, 2002, consists of:

	Estimated Completion Date	Estimated Total Cost	Cost Incurred to Date
<u>Water Plant</u>			
New Well Field Study	Not Known	Not Known	\$60,475

Total construction in progress

**LAKENGREN WATER AUTHORITY
PREBLE COUNTY, OHIO**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED MARCH 31, 2002**

NOTE 8 - REVENUE BONDS

On September 1, 1998, the Authority sold an \$845,000 issue of revenue bonds with an average interest rate of 5.06% to advance refund \$960,000 of outstanding 1989 Series bonds with an average interest rate of 8.50%. The net proceeds of \$811,000 (after payment of \$34,000 in underwriting fees and issuance costs) plus an additional \$218,712 of 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 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 accompanying 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 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.

Cash payments of \$40,754 for the fiscal year ended March 31, 2002 were made for interest.

At March 31, 2002, Firststar Bank (currently U.S. Bank), Cincinnati, Ohio, held cash and government money funds totaled \$122,569 in the Bond Retirement Trust Account. These funds will be used to redeem the bonds and to pay interest due in 2003 and for the final payoff due in 2008. These funds are considered restricted cash and cash equivalents on the Authority's Balance Sheet.

At March 31, 2002 Bonds Payable consisted of the following issuances:

<u>Description</u>	<u>Balance at March 31, 2002</u>
1998 Water Resource Revenue Refunding Bonds, with varying denominations, bearing varying rates of interest per annum, principal payments are due annually on March 1 with interest payments due semi-annually on March 1 and September 1.	<u>\$555,000</u>

**LAKENGREN WATER AUTHORITY
PREBLE COUNTY, OHIO**

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED MARCH 31, 2002

NOTE 8 - REVENUE BONDS - (Continued)

The annual activity for Bonds Payable is as follows:

<u>Description</u>	<u>Amount</u>
Balance on April 1, 2001	\$635,000
Additions	-
Retirements	<u>(80,000)</u>
Balance on March 31, 2002	<u>\$555,000</u>

The principal and interest requirements to retire the long-term debt obligations outstanding at March 31, 2002, are as follows:

<u>Year Ending March 31</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2003	\$ 80,000	\$26,444	\$106,444
2004	85,000	22,369	107,369
2005	90,000	17,938	107,938
2006	95,000	13,197	108,197
2007	100,000	8,138	108,138
2008	<u>105,000</u>	<u>2,715</u>	<u>107,715</u>
Total	<u>\$555,000</u>	<u>\$90,801</u>	<u>\$645,801</u>

NOTE 9 - DEFINED BENEFIT PENSION PLAN

PUBLIC EMPLOYEES RETIREMENT SYSTEM (PERS)

All Authority full-time employees participate in the PERS , a cost-sharing multiple-employer public employee retirement system created by the State of Ohio. PERS provides retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by the state statute per Chapter 145 of the Ohio Revised Code. PERS issues a stand-alone financial report. Interested parties may obtain a copy by making a written request to 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 466-2085 or 1-800-222-PERS (7377).

**LAKENGREN WATER AUTHORITY
PREBLE COUNTY, OHIO**

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED MARCH 31, 2002

NOTE 9 - DEFINED BENEFIT PENSION PLAN - (Continued)

The Ohio Revised Code provides statutory authority for employee and employer contributions. The employee contribution rate for 2001 was 8.5% for employees other than law enforcement. The Authority's contribution rate for employees was 13.55% of covered payroll; 9.25% was the portion used to fund pension obligations for 2001. The Authority's contributions for pension obligations to the PERS for the years ended March 31, 2002, 2001, and 2000 were \$36,834, \$28,742, and \$19,157, respectively; 98% has been contributed for 2002 and 100% for 2001 and 2000. \$770, representing the unpaid contribution for 2002, is recorded as a liability.

NOTE 10 - POSTEMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS

PERS provides postretirement health care coverage to age and service retirees with ten or more years of qualifying Ohio service credit and to primary survivor recipients of such retirees. Health care coverage for disability recipients and primary survivor recipients is available. The health care coverage provided by the retirement system is considered an Other Post Employment Benefit (OPEB) as described in GASB Statement No. 12, "Disclosure of Information on Postemployment Benefits other than Pension Benefits by State and Local Government Employers". A portion of each employer's contribution to the System is set-aside for the funding of post retirement health care. The Ohio Revised Code provides statutory authority for employer contributions. The 2001 employer contribution rate for local employers was 13.55 percent of covered payroll; 4.30 percent was the portion that was used to fund health care. The Ohio Revised Code provides the statutory authority requiring public employers to fund postretirement health care through their contributions to PERS.

OPEB's are advance-funded on an actuarially determined basis. The number of active contributing participants was \$411,076. \$11,735.9 million represents the actuarial value of the Retirement System's net assets available for OPEB at December 31, 2000 (the most recent data available). The actuarially accrued liability and the unfunded actuarial accrued liability, based on the actuarial cost method used, were \$14,364.6 million and \$2,628.7 million, respectively.

Additional information on the PERS, including historical trend information showing the progress in accumulating sufficient assets to pay benefits when due is available in the PERS December 31, 2001, Comprehensive Annual Financial Report.

**LAKENGREN WATER AUTHORITY
PREBLE COUNTY, OHIO**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED MARCH 31, 2002**

NOTE 11 - RISK MANAGEMENT

The 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 2001, the Authority contracted with Reliance Insurance Company for various types of insurance as follows:

<u>Type of Coverage</u>	<u>Deductible</u>
Commercial Property	\$ 500
General Liability	0
Automobile Liability	0
Automobile Comprehensive	0
Automobile Collision	500
Machinery	1,000
Errors and Omissions	1,000
Fidelity Bond	0

The amount of settlements did not exceed the coverage for each of the past three years. There have been no significant reductions in insurance coverage from last year.

The 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. The System administers and pays all claims.

NOTE 12 - COMPENSATED ABSENCES

Vacation and sick leave is earned at rates which vary depending upon the employee's length of service and standard work week. Current policy credits vacation and sick leave on a pay period basis except for new employees who are required to complete one year of service prior to their accrual becoming available. Authority employees are paid for earned, unused vacation leave at the time of termination.

Vacation and sick leave in the proprietary fund is recorded as an expense when earned, and the liability for unused amounts is shown as a fund liability. The total vested liability for accumulated unpaid vacation leave is 985 hours, totaling \$15,374 at March 31, 2002.

**LAKENGREN WATER AUTHORITY
PREBLE COUNTY, OHIO**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED MARCH 31, 2002**

NOTE 13 - CONTRIBUTED CAPITAL

On October 26, 1998, the Authority assumed operating control of the Lakengren Sewer District (a component unit of the Preble County government) from the Preble County Commissioners. In connection with this assumption, the Commissioners transferred all operating assets of the District to the Authority. These assets were recorded at estimated fair market values as of the transfer date, and an equivalent amount of contributed capital was recognized. The contributed capital is being reduced as the related assets are depreciated.

NOTE 14 - CONTINGENT LIABILITY

LITIGATION

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

TRIMBLE, JULIAN & GRUBE, INC.

"SERVING OHIO LOCAL GOVERNMENTS"

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Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of General Purpose 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 general purpose financial statements of Lakengren Water Authority, Ohio, (the "Authority") as of and for the year ended March 31, 2002, and have issued our report thereon dated July 11, 2002. 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.

Compliance

As part of obtaining reasonable assurance about whether the Authority's general purpose financial statements are free of material misstatement, we performed tests of its' compliance with certain provisions of laws, regulations, contracts and grants, 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 that are required to be reported under *Government Auditing Standards*.

Lakengren Water Authority
Board of Trustees

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Lakengren Water Authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the general purpose financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over general purpose financial reporting that might be material weaknesses. A material weakness is a 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 in amounts that would be material in relation to the general purpose 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 certain matters involving the internal control over financial reporting, which we have reported to the management of Lakengren Water Authority in a separate letter dated July 11, 2002.

This report is intended 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.

Trimble, Julian & Grube, Inc.
July 11, 2002



STATE OF OHIO
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

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P.O. Box 1140
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LAKENGREN WATER AUTHORITY

PREBLE COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
NOVEMBER 7, 2002**