

**LAKENGREN  
WATER AUTHORITY**

Basic Financial Statements  
*(Audited)*

For The Fiscal Year Ended

March 31, 2004

**BOARD OF TRUSTEES**

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Mary Taylor, CPA  
Auditor of State

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

We have reviewed the *Independent Auditors' Report* of the Lakengren Water Authority, Preble County, prepared by Julian and Grube, Inc., for the audit period April 1, 2003 to March 31 2004. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

*Mary Taylor*

MARY TAYLOR, CPA  
Auditor of State

January 8, 2007

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**LAKENGREN WATER AUTHORITY  
PREBLE COUNTY, OHIO**

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

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

**Independent Auditors' Report**

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

We have audited the accompanying financial statements of the Lakengren Water Authority, Preble County, Ohio, (the "Authority"), as of and for the fiscal year ended March 31, 2004, which collectively comprise the Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Lakengren Water Authority, Preble County, as of March 31, 2004, and the respective changes in financial position and cash flows for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

As disclosed in Note 3 to the financial statements, the Authority has restated net assets in the water and sewer fund at April 1, 2003 due to errors and omissions.

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

Independent Auditors' Report  
Board of Trustees  
Page Two

The management's discussion and analysis information on pages 3 through 7 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of 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.  
September 21, 2006

**LAKENGREN WATER AUTHORITY**  
Preble County, Ohio  
Management's Discussion and Analysis  
For the Fiscal Year Ended March 31, 2004  
Unaudited

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The discussion and analysis of the Lakengren Water Authority's (the Water Authority) financial performance provides an overall review of the financial activities for the fiscal year ended March 31, 2004. The intent of this discussion and analysis is to look at the Water Authority's financial performance as a whole; readers should also review the financial statements and the notes to the basic financial statements to enhance their understanding of the Water Authority's financial performance.

The Management's Discussion and Analysis (MD&A) is an element of the new reporting model adopted by the Governmental Accounting Standards Board (GASB) in their Statement No. 34 Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments issued June 1999. Certain comparative information between the current year and the prior year is required to be presented. However, because this is the first year of implementing the new reporting model, certain necessary comparative information of the previous year was not prepared. Considering the financial resources necessary to prepare this information of the prior year, and that the GASB Statement No. 34 permits the omission of the comparative information in the first year of adoption of the new reporting model, the Water Authority elected to exclude the information in this report. Subsequent reports will include the comparative information.

### **Financial Highlights**

Key Financial highlights for the fiscal year ended March 31, 2004 are as follows:

- Total net assets decreased \$118,215 which represents a 1.68% decrease from the fiscal year ended March 31, 2003.
- Total assets decreased \$188,384 which represents a 2.50% decrease from the fiscal year ended March 31, 2003.
- Total liabilities decreased by \$66,741. Current liabilities increased \$14,715. Non-current liabilities decreased by \$81,456 resulting primarily from principal payments on water revenue bonds during the fiscal year ended March 31, 2004.

### **Using this Financial Report**

This annual report consists of two parts, the MD&A and the basic financial statements. The basic financial statements include a statement of net assets, statement of revenues, expenses and changes in net assets, and a statement of cash flows.

**LAKENGREN WATER AUTHORITY**  
 Preble County, Ohio  
 Management's Discussion and Analysis  
 For the Fiscal Year Ended March 31, 2004  
 Unaudited

*Statement of Net Assets*

The Statement of Net Assets answers the question, "How did we do financially during the fiscal year ended March 31, 2004?" This statement includes all assets, liabilities, both financial and capital and short-term and long-term, using the accrual basis of accounting and economic resources measurement focus, which is similar to the accounting used by most private-sector companies. This basis of accounting takes into account all revenues and expenses during the year, regardless of when the cash is received or paid.

Table 1 provides a summary of the Water Authority's net assets for the fiscal year ended March 31, 2004 compared to the fiscal year ended 2003:

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

	2004	2003 Restated
Assets:		
Current and Other Assets	\$1,093,793	\$1,095,811
Nondepreciable Capital Assets	217,502	142,877
Depreciable Capital Assets, Net	6,034,162	6,291,725
Total Assets	7,345,457	7,530,413
Liabilities:		
Current and Other Liabilities	134,294	119,579
Long-Term Liabilities:	299,278	380,734
Total Liabilities	433,572	500,313
Net Assets:		
Invested in Capital Assets, Net of Related Debt	5,875,694	5,980,090
Restricted	92,159	93,829
Unrestricted	944,032	956,181
Total Net Assets	\$6,911,885	\$7,030,100

The net assets of the Water Authority decreased \$118,215 or 1.68% percent. With usage rates generating revenue, which reasonably matches expenses, the financial condition of the Water Authority is relatively constant. The decrease of \$184,956 in total assets resulted primarily from the depreciation of capital assets.

**LAKENGREN WATER AUTHORITY**  
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Table 2 shows the changes in net assets for the fiscal year ended March 31, 2004. In previous years, the Water Authority's revenue and expense line items were presented on a more detailed level. For the fiscal year ended March 31, 2004, the line item descriptions are presented at a less detailed level and it would be difficult to retroactively apply these descriptions to the prior year for comparative purposes, due to the complexity and volume of the data. This table will present two fiscal years in side-by-side comparisons in successive reporting years.

**Table 2**  
**Changes in Net Assets**

Operating Revenues	
Charges for Services	\$858,539
Other	7,249
Non-Operating Revenues	
Interest	27,636
Total Revenues	<u>893,424</u>
Operating Expenses	
Personal Services	434,555
Fringe Benefits	5,843
Operations and Maintenance	71,779
Contractual Services	55,839
Supplies and Materials	54,265
Utilities	84,159
Depreciation	271,937
Other	643
Non-Operating Expenses	
Loss on Disposal of Capital Assets	110
Interest and Fiscal Charges	32,509
Total Expenses	<u>1,011,639</u>
Decrease in Net Assets	(118,215)
Net Assets at Beginning of Year, restated	7,030,100
Net Assets at End of Year	<u><u>\$6,911,885</u></u>

**LAKENGREN WATER AUTHORITY**  
 Preble County, Ohio  
 Management's Discussion and Analysis  
 For the Fiscal Year Ended March 31, 2004  
 Unaudited

**Capital Assets and Debt Administration**

**Capital Assets**

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

	2004	2003 Restated
Land	\$53,242	\$53,242
Construction in Progress	164,260	89,635
Buildings	51,499	56,453
Vehicles	16,624	5,570
Equipment	37,841	57,979
Infrastructure	5,928,198	6,171,723
Totals	\$6,251,664	\$6,434,602

A review of Table 3 shows that capital assets (net of depreciation) decreased \$182,938. The overall decrease is mainly a result of depreciation of capital assets, exceeding capital asset additions for the year.

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

**Debt**

At March 31, 2004, the Water Authority had water revenue bonds outstanding in the amount of \$390,000; \$90,000 of which is due within one year. This reflects an \$85,000 overall decrease from 2003 in the water revenue bonds liability.

**Table 4**  
**Outstanding Debt at Year-End**

	2004	2003
Water Revenue Bonds	\$390,000	\$475,000

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

**LAKENGREN WATER AUTHORITY**  
Preble County, Ohio  
Management's Discussion and Analysis  
For the Fiscal Year Ended March 31, 2004  
Unaudited

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

**Contacting the Water Authority**

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

**LAKENGREN WATER AUTHORITY**  
**STATEMENT OF FUND NET ASSETS**  
**PROPRIETARY FUNDS**  
**MARCH 31, 2004**

	<u>WATER</u>	<u>SEWER</u>	<u>TOTAL</u>
<b>ASSETS:</b>			
Current Assets:			
Equity in Pooled Cash and Cash Equivalents	\$580,899	\$202,281	\$783,180
Accrued Interest Receivable	5,444	3,629	9,073
Materials and Supplies Inventory	15,630	52,395	68,025
Accounts Receivable	46,024	66,398	112,422
Prepaid Items	12,725	6,852	19,577
Restricted Assets:			
Investments with Fiscal Agents	93,846	0	93,846
<b>Total Current Assets</b>	<u>754,568</u>	<u>331,555</u>	<u>1,086,123</u>
Noncurrent Assets:			
Restricted Assets:			
Deferred Charges	7,670	0	7,670
Nondepreciable Capital Assets	185,577	31,925	217,502
Depreciable Capital Assets, Net	855,892	5,178,270	6,034,162
<b>Total Noncurrent Assets</b>	<u>1,049,139</u>	<u>5,210,195</u>	<u>6,259,334</u>
<b>Total Assets</b>	<u>1,803,707</u>	<u>5,541,750</u>	<u>7,345,457</u>
<b>LIABILITIES:</b>			
Current Liabilities:			
Accounts Payable	1,768	2,993	4,761
Accrued Wages	5,180	4,194	9,374
Intergovernmental Payable	6,159	3,316	9,475
Compensated Absences Payable	10,112	8,885	18,997
<b>Total Current Liabilities</b>	<u>23,219</u>	<u>19,388</u>	<u>42,607</u>
Current Liabilities Payable from Restricted Assets:			
Water Revenue Bonds Payable	90,000	0	90,000
Accrued Interest Payable	1,687	0	1,687
<b>Total Current Liabilities Payable from Restricted Assets</b>	<u>91,687</u>	<u>0</u>	<u>91,687</u>
Long-term Liabilities:			
Compensated Absences Payable	2,742	2,896	5,638
Water Revenue Bonds Payable	293,640	0	293,640
<b>Total Long-term Liabilities</b>	<u>296,382</u>	<u>2,896</u>	<u>299,278</u>
<b>Total Liabilities</b>	<u>411,288</u>	<u>22,284</u>	<u>433,572</u>
<b>NET ASSETS:</b>			
Invested in Capital Assets, Net of Related Debt	665,499	5,210,195	5,875,694
Restricted for:			
Revenue Bonds Future Debt Service	92,159	0	92,159
Unrestricted	634,761	309,271	944,032
<b>Total Net Assets</b>	<u>\$1,392,419</u>	<u>\$5,519,466</u>	<u>\$6,911,885</u>

See accompanying notes to the basic financial statements

**LAKENGREN WATER AUTHORITY**  
**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS**  
**PROPRIETARY FUNDS**  
**FOR THE FISCAL YEAR ENDED MARCH 31, 2004**

	<u>WATER</u>	<u>SEWER</u>	<u>TOTAL</u>
<b>OPERATING REVENUES:</b>			
Charges for Services	\$484,312	\$374,227	\$858,539
Other	<u>6,701</u>	<u>548</u>	<u>7,249</u>
Total Operating Revenues	<u>491,013</u>	<u>374,775</u>	<u>865,788</u>
<b>OPERATING EXPENSES:</b>			
Personal Services	266,975	167,580	434,555
Fringe Benefits	3,499	2,344	5,843
Operations and Maintenance	41,316	30,463	71,779
Contractual Services	29,303	26,536	55,839
Supplies and Materials	41,432	12,833	54,265
Utilities	35,315	48,844	84,159
Depreciation	46,518	225,419	271,937
Other	<u>406</u>	<u>237</u>	<u>643</u>
Total Operating Expenses	<u>464,764</u>	<u>514,256</u>	<u>979,020</u>
Operating Income (Loss)	<u>26,249</u>	<u>(139,481)</u>	<u>(113,232)</u>
<b>NON-OPERATING REVENUES (EXPENSES):</b>			
Interest	13,228	14,408	27,636
Loss on Disposal of Capital Assets	0	(110)	(110)
Interest and Fiscal Charges	<u>(32,509)</u>	<u>0</u>	<u>(32,509)</u>
Total Non-Operating Revenues (Expenses)	<u>(19,281)</u>	<u>14,298</u>	<u>(4,983)</u>
Change in Net Assets	6,968	(125,183)	(118,215)
Net Assets at Beginning of Year, restated	<u>1,385,451</u>	<u>5,644,649</u>	<u>7,030,100</u>
Net Assets at End of Year	<u><u>\$1,392,419</u></u>	<u><u>\$5,519,466</u></u>	<u><u>\$6,911,885</u></u>

See accompanying notes to the basic financial statements

**LAKENGREN WATER AUTHORITY**  
**STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUNDS**  
**FOR THE FISCAL YEAR ENDED MARCH 31, 2004**

	<u>WATER</u>	<u>SEWER</u>	<u>TOTAL</u>
<u>Increase (Decrease) in Cash and Cash Equivalents:</u>			
Cash Flows from Operating Activities:			
Cash Received from Customers	\$478,371	\$370,280	\$848,651
Cash Payments for Employee Services and Benefits	(263,437)	(163,263)	(426,700)
Cash Payments to Suppliers for Goods and Services	(109,201)	(98,082)	(207,283)
Cash Payments for Operations and Maintenance	(41,370)	(30,375)	(71,745)
Other Operating Revenues	6,701	548	7,249
Other Operating Expenses	0	(18)	(18)
Net Cash Provided by Operating Activities	<u>71,064</u>	<u>79,090</u>	<u>150,154</u>
Cash Flows from Capital and Related Financing Activities:			
Acquisition of Capital Assets	(74,625)	(14,484)	(89,109)
Principal Paid on Mortgage Revenue Bonds	(85,000)	0	(85,000)
Interest Paid on Mortgage Revenue Bonds	(24,364)	0	(24,364)
Net Cash Used for Capital and Related Financing Activities	<u>(183,989)</u>	<u>(14,484)</u>	<u>(198,473)</u>
Cash Flows from Investing Activities:			
Interest	19,542	10,779	30,321
Net Increase (Decrease) in Cash and Cash Equivalents	(93,383)	75,385	(17,998)
Cash and Cash Equivalents Beginning of Year, restated	<u>768,128</u>	<u>126,896</u>	<u>895,024</u>
Cash and Cash Equivalents End of Year	<u><u>\$674,745</u></u>	<u><u>\$202,281</u></u>	<u><u>\$877,026</u></u>
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities:			
Operating Income (Loss)	\$26,249	(\$139,481)	(\$113,232)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by Operating Activities			
Depreciation	46,518	225,419	271,937
Changes in Assets and Liabilities:			
Increase in Accounts Receivable	(5,941)	(3,947)	(9,888)
Increase in Materials and Supplies Inventory	(2,583)	(10,371)	(12,954)
Decrease in Prepaids Items	406	219	625
Decrease in Accounts Payable	(1,014)	(171)	(1,185)
Increase in Accrued Wages Payable	235	743	978
Increase in Intergovernmental Payable	235	125	360
Increase in Compensated Absences Payable	6,959	6,554	13,513
Net Cash Provided by Operating Activities	<u><u>\$71,064</u></u>	<u><u>\$79,090</u></u>	<u><u>\$150,154</u></u>

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

See accompanying notes to the basic financial statements

**LAKENGREN WATER AUTHORITY**  
Preble County, Ohio  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended March 31, 2004

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**NOTE 1 - REPORTING ENTITY**

The Lakengren Water Authority (the “Water Authority”) was organized in 1989 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 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) is able to significantly influence the programs or services performed or provided by the organization; or (2) is legally entitled to or can otherwise access the organization's resources; is legally obligated or has otherwise assumed the responsibility to finance deficits of or provide financial support to the organization; or is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the Water Authority in that the Water Authority approves their budget, the issuance of their debt or the levying of their taxes. The Water Authority has no component units.

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

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

**LAKENGREN WATER AUTHORITY**  
Preble County, Ohio  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended March 31, 2004

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

**A. Basis of Presentation**

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

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

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

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

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

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

**B. Measurement Focus**

The enterprise funds are accounted for on 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 (e.g., revenues) and decreases (e.g., expenses) in net total assets. The statement of cash flows provides information about how the Water Authority finances and meets the cash flow needs of its enterprise activities.

**C. Basis of Accounting**

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

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

**LAKENGREN WATER AUTHORITY**  
Preble County, Ohio  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended March 31, 2004

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

**D. Cash and Cash Equivalents**

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

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

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

**E. Budgetary Process**

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

*Appropriations*

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

*Estimated Resources*

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

**LAKENGREN WATER AUTHORITY**  
Preble County, Ohio  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended March 31, 2004

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

*Encumbrances*

At the close of each fiscal year, the unencumbered balance of each appropriation reverts to the respective fund from which it was appropriated and becomes subject to future appropriations. The encumbered appropriation balance is carried forward to the succeeding fiscal year and need not be reappropriated. The Water Authority had no outstanding encumbrances at March 31, 2004.

A summary of budgetary activity for the fiscal year ended March 31, 2004 appears in Note 4.

**F. Inventory**

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

**G. Capital Assets**

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

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

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

**H. 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.

**LAKENGREN WATER AUTHORITY**  
Preble County, Ohio  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended March 31, 2004

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

**I. Compensated Absences**

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

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

**J. Prepaid Items**

Payments made to vendors for services that will benefit periods beyond March 31, 2004 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.

**K. Restricted Assets**

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

**L. Net Assets**

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

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

**LAKENGREN WATER AUTHORITY**  
Preble County, Ohio  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended March 31, 2004

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**M. Operating and Nonoperating Revenues and Expenses**

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

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

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

**N. Contributions of Capital**

Contributions of capital arise from outside contributions of capital assets or outside contributions of resources restricted to capital acquisition and construction. The Water Authority did not have any capital contributions during the fiscal year ended March 31, 2004.

**O. Estimates**

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

**NOTE 3 - CHANGES IN ACCOUNTING PRINCIPLES AND RESTATEMENT OF PRIOR YEAR NET ASSETS**

**A. Change in Accounting Principles**

For the fiscal year ended March 31, 2004, the Water Authority has implemented *GASB Statement No. 34, "Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments"*, *GASB Statement No. 37, "Basic Financial Statements for State and Local Governments: Omnibus"*, *GASB Statement No. 38, "Certain Financial Statement Note Disclosures"*, *GASB Statement No. 39, "Determining Whether Certain Organizations are Component Units"*, *GASB Statement No. 40, "Deposit and Investment Risk Disclosures"*, and *GASB Statement No. 41, "Budgetary Comparison Schedules – Perspective Differences"*.

GASB 34 creates new basic financial statements for reporting on the Water Authority’s financial activities. The financial statements now include a statement of net assets, statement of revenues, expenses, and changes in net assets, and a statement of cash flows all prepared on an accrual basis of accounting. The net assets beginning of year amount presented in this year’s report equals the sum of retained earnings and contributed capital previously reported as of March 31, 2003.

**LAKENGREN WATER AUTHORITY**  
Preble County, Ohio  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended March 31, 2004

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**NOTE 3 - CHANGES IN ACCOUNTING PRINCIPLE AND RESTATEMENT OF PRIOR YEAR NET ASSETS** (continued)

GASB Statement No. 37 clarifies certain provisions of Statement No. 34, including the required content of Management's Discussion and Analysis, the classification of program revenues and the criteria for determining major funds.

GASB Statement No. 38 modifies, establishes and rescinds certain financial statement note disclosures.

GASB Statement No. 39 further defines the guidelines of GASB Statement No. 14, "The Financial Reporting Entity." The implementation of this new statement has no effect on the Water Authority's financial statements for the fiscal year ended March 31, 2004.

GASB Statement No. 40 creates new disclosure requirements for deposits and investments related to credit risk, concentration of credit risk, interest rate risk and foreign currency risk. The implementation of this statement had no effect on the Water Authority's financial statements for the fiscal year ended March 31, 2004.

GASB Statement No. 41 only applies when there are significant perspective differences that prevent an entity from associating the estimated revenues and appropriations from its legally adopted budget to the major revenue sources and functional expenditures that are reported in the general and major special revenue funds. This statement did not apply to the Water Authority for the fiscal year ended March 31, 2004.

In previous years, the Water Authority used one fund for its day-to-day record keeping, while maintaining separate account codes for water, sewer and administrative revenues and expenses. Therefore, the net assets of the Water Authority were presented in aggregate, while the changes in net assets were presented according to activity. For the fiscal year ended March 31, 2003, the net assets of the water and sewer activities have been calculated and restated in separate funds, with administrative net assets being allocated to the water and sewer funds according to each fund's percentage of use. This change had no effect on total net assets of the Water Authority at March 31, 2003.

**B. Restatement of Prior Year Net Assets**

There was a restatement in the Water and Sewer Funds due to errors in the calculation of capital assets, and certificates of deposit being recorded in the wrong funds in prior years.

**LAKENGREN WATER AUTHORITY**  
 Preble County, Ohio  
 Notes to the Basic Financial Statements  
 For the Fiscal Year Ended March 31, 2004

**NOTE 3 - CHANGES IN ACCOUNTING PRINCIPLE AND RESTATEMENT OF PRIOR YEAR NET ASSETS** (continued)

The effect of this change in net assets in the Water and Sewer Funds as previously reported for fiscal year ended March 31, 2003, is as follows:

	Water	Sewer	Total
Net Assets at March 31, 2003	\$1,515,627	\$5,517,901	\$7,033,528
Restatement for Capital Assets	(3,428)	-	(3,428)
Restatement for Cash and Cash Equivalents	(126,748)	126,748	0
Net Assets at April 1, 2003	\$1,385,451	\$5,644,649	\$7,030,100

**NOTE 4 - BUDGETARY ACTIVITY**

As disclosed in Note 2A, the Authority uses a single enterprise fund to maintain its financial records during the fiscal year. Budgetary activity (GAAP basis) for the fiscal year ended March 31, 2004 follows:

Budgeted vs. Actual Receipts	
	Total
Budgeted Receipts	\$897,536
Actual Receipts	893,424
Variance	(\$4,112)

  

Budgeted vs. Actual Expenditures	
	Total
Budgeted Expenditures	\$1,070,959
Actual Expenditures	1,011,639
Variance	\$59,320

**NOTE 5 - DEPOSITS AND INVESTMENTS**

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

Active deposits are public deposits necessary to meet current demands on the treasury. Such monies must be maintained either as cash in the Water Authority Treasury, in commercial accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

**LAKENGREN WATER AUTHORITY**  
Preble County, Ohio  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended March 31, 2004

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**NOTE 5 - 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 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 and 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. Commercial paper;
5. Bankers acceptances;
6. No-load money market mutual funds investing exclusively in United States Treasury obligations provided that investments in securities described in this division are made only through eligible institutions; and
7. The State Treasurer's investment pool (STAROhio).

**LAKENGREN WATER AUTHORITY**  
Preble County, Ohio  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended March 31, 2004

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**NOTE 5 - DEPOSITS AND INVESTMENTS** (continued)

The Water Authority may also invest any monies not required to be used for a period of six months or more in the following:

1. Bonds of the State of Ohio;
2. Bonds of any municipal corporation, village, county, township or other political subdivision of this State, as to which there is no default of principal, interest or coupons; or
3. Obligations of the Water Authority.

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 Water 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 Water Authority or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

**Investments**

As of March 31, 2004, the Water Authority had the following investment:

	<u>Fair Value</u>	<u>Maturity</u>
First American Treasury Obligation Money Market Mutual Fund	\$93,846	Average 90 Days

**Interest Rate Risk**

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

**Credit Risk**

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

**LAKENGREN WATER AUTHORITY**  
 Preble County, Ohio  
 Notes to the Basic Financial Statements  
 For the Fiscal Year Ended March 31, 2004

**NOTE 6 - ACCOUNTS RECEIVABLE**

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

**NOTE 7 - LONG-TERM OBLIGATIONS**

Changes in long-term obligations during the fiscal year ended March 31, 2004 were as follows:

	Balance at March 31,			Balance at March 31	Amounts Due in
	<u>2003</u>	<u>Increase</u>	<u>Decrease</u>	<u>2004</u>	<u>One Year</u>
Mortgage Revenue Bonds					
5.06% - 1998	\$475,000	\$0	\$85,000	\$390,000	\$90,000
Deferred Amount on Refunding	(9,266)	0	(2,906)	(6,360)	
Compensated Absences Payable	11,122	31,284	17,771	24,635	18,997
<b>TOTAL - General Long-Term Obligations</b>	<b><u>\$476,856</u></b>	<b><u>\$31,284</u></b>	<b><u>\$99,865</u></b>	<b><u>\$408,275</u></b>	<b><u>\$108,997</u></b>

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

The advance refunding resulted in a difference of \$27,900 between the reacquisition price and the net carrying amount of the old debt. This difference, reported in the financial statements as a deduction from bonds payable (deferred amount on refunding), is being charged to operations through the year 2008 using the effective-interest method. The Water Authority completed the advance refunding to reduce its total debt service payments through 2014 (the original payoff date for the 1989 Series bonds) by \$664,826, and thereby obtain an economic gain (difference between the present values of the old and new debt service payments of \$51,494. There were no unmatured, unpaid amounts related to the 1989 Series bonds at March 31, 2004.

**LAKENGREN WATER AUTHORITY**  
 Preble County, Ohio  
 Notes to the Basic Financial Statements  
 For the Fiscal Year Ended March 31, 2004

**NOTE 7 - LONG-TERM OBLIGATIONS** (continued)

Principal and interest requirements to retire the revenue bonds outstanding at March 31, 2004 are:

Year	Principal	Interest
2005	\$90,000	\$20,244
2006	95,000	15,632
2007	100,000	10,762
2008	105,000	5,512
Total	\$390,000	\$52,150

**NOTE 8 - CAPITAL ASSETS**

Capital asset activity for the fiscal year ended March 31, 2004, was as follows:

	Restated Balance At March 31, 2003	Additions	Deletions	Balance At March 31, 2004
Capital Assets, Not Being Depreciated:				
Land	\$53,242	\$0	\$0	\$53,242
Construction in Progress	89,635	74,625	0	164,260
Total Capital Assets Not Being Depreciated	142,877	74,625	0	217,502
Depreciable Capital Assets:				
Buildings	92,901	0	0	92,901
Vehicles	60,452	14,484	(12,500)	62,436
Equipment	156,430	0	0	156,430
Infrastructure	7,916,434	0	0	7,916,434
Total Depreciable Capital Assets	8,226,217	14,484	(12,500)	8,228,201
Less Accumulated Depreciation:				
Buildings	(36,448)	(4,954)	0	(41,402)
Vehicles	(54,882)	(3,320)	12,390	(45,812)
Equipment	(98,451)	(20,138)	0	(118,589)
Infrastructure	(1,744,711)	(243,525)	0	(1,988,236)
Total Accumulated Depreciation	(1,934,492)	(271,937)	12,390	(2,194,039)
Total Assets Being Depreciated, Net	6,291,725	(257,453)	(110)	6,034,162
Governmental Activities Capital Assets, Net	\$6,434,602	(\$182,828)	(\$110)	\$6,251,664

**LAKENGREN WATER AUTHORITY**  
 Preble County, Ohio  
 Notes to the Basic Financial Statements  
 For the Fiscal Year Ended March 31, 2004

**NOTE 9 - RISK MANAGEMENT**

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

<u>Coverage</u>	<u>Limit</u>	<u>Deductible</u>
Property	\$4,658,742	\$500
General Liability:		
Per Occasion	1,000,000	None
Aggregate	2,000,000	None
Public Officials	1,000,000	10,000
Electronic Data Processing	63,000	250
Systems Breakdown	500,000	None
Valuable Papers	100,000	250
Contractors Equipment	262,540	None
Crime:		
Employee Dishonesty	100,000	250
Theft	50,000	250
Automobile:		
Liability	1,000,000	None
Comprehensive	Actual Cash Value	250
Collision	Actual Cash Value	500

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

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

**LAKENGREN WATER AUTHORITY**  
Preble County, Ohio  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended March 31, 2004

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

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

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

For the fiscal year ended March 31, 2004, the Water Authority's employees participated in the traditional plan and were required to contribute 8.5 percent of their annual covered salaries. The Water Authority's contribution rate for pension benefits for the fiscal year ended March 31, 2004 was 9.55 percent. For the fiscal year ended March 31, 2003, the contribution rate for pension benefits was 8.55 percent. The Ohio Revised code provides statutory authority for member and employer contributions.

The Water Authority's required contributions for pension obligations to the traditional and combined plans for the years ended March 31, 2004, 2003, and 2002 were \$30,259, \$38,418, and \$36,834 respectively; 78.17 percent has been contributed for 2004 and 100 percent for 2003 and 2002. There were no contributions to the member-directed plan for the fiscal year ended March 31, 2004.

**LAKENGREN WATER AUTHORITY**  
Preble County, Ohio  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended March 31, 2004

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**NOTE 11 - POSTEMPLOYMENT BENEFITS**

The Ohio Public Employees Retirement System (OPERS) provides postretirement health care coverage to age and service retirees with ten or more years of qualifying Ohio service credit with either the traditional or combined plans. Health care coverage for disability recipients and primary survivor recipients is available. Members of the member-directed plan do not qualify for postretirement health care coverage. The health care coverage provided by the retirement system is considered an Other Postemployment Benefit as described in *GASB Statement No. 12*. A portion of each employer's contribution to the traditional or combined plans is set aside for the funding of postretirement health care based on authority granted by State statute. The local government employer contribution rate for the fiscal year ended March 31, 2004 was 13.55 percent of covered payroll (16.7 percent for public safety and law enforcement); 4.00 percent of covered payroll was the portion that was used to fund health care.

Benefits are advance-funded using the entry age normal actuarial cost method. Significant actuarial assumptions, based on OPERS's latest actuarial review performed as of December 31, 2003, include a rate of return on investments of 8.00 percent, an annual increase in active employee total payroll of 4.00 percent compounded annually (assuming no change in the number of active employees) and an additional increase in total payroll of between .50 percent and 6.3 percent based on additional annual pay increases. Health care premiums were assumed to increase between 1.00 and 6.00 percent annually for the next eight years and 4.00 percent annually after eight years.

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

The number of active contributing participants in the traditional and combined plans was 369,885. Actual employer contributions for the fiscal year ended March 31, 2004 which were used to fund postemployment benefits were \$12,674. The actual contribution and the actuarially required contribution amounts are the same. OPERS's net assets available for payment of benefits at December 31, 2003, (the latest information available) were \$10.5 billion. The actuarially accrued liability and the unfunded actuarial accrued liability were \$26.9 billion and \$16.4 billion, respectively.

**NOTE 12 - OTHER EMPLOYEE BENEFITS**

**A. Insurance Benefits**

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

**LAKENGREN WATER AUTHORITY**  
Preble County, Ohio  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended March 31, 2004

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**NOTE 12 - 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.

**NOTE 13 - SUBSEQUENT EVENTS**

On April 1, 2004, the Water Authority entered in to an operating lease with a property owner outside of the Lakengren Subdivision for the purpose of extracting water found in or under the land owned by the individual. The lease will remain in force for 99 years, provided the Ohio Environmental Protection Agency (OEPA) approves the leased premises as a well site, and the well continues to produce clean, useable water in acceptable quantities. If the well fails to produce acceptable water in adequate quantities, the Water Authority may terminate the lease upon 30 days written notice to the lessor, and abandon the well. The cost of abandonment in accordance with OEPA standards will be the responsibility of the Water Authority. Monthly payments on the lease will be \$550, beginning April 1, 2004, and will be adjusted annually thereafter, to the government's published rate of inflation.

On April 26, 2004, the Water Authority agreed to contract with the SIECO Division of Strand Associates, Inc., for the planning and design services for a new water treatment plant facility, in the amount of \$79,800.

**NOTE 14 - CONTINGENT LIABILITY**

**Litigation**

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



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

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

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

We have audited the financial statements of Lakengren Water Authority, Preble County, (the "Authority") as of and for the fiscal year ended March 31, 2004, which collectively comprise the Authority's basic financial statements and have issued our report thereon dated September 21, 2006. As disclosed in Note 3 to the financial statements, the Authority has restated net assets in the water and sewer fund at April 1, 2003 due to errors and omissions. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

Board of Trustees  
Lakengren Water Authority

Compliance and Other Matters

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

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

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

Julian & Grube, Inc.  
September 21, 2006



**Mary Taylor, CPA**  
Auditor of State

**LAKENGREN WATER AUTHORITY**

**PREBLE COUNTY**

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
JANUARY 23, 2007**