

LAKENGREN WATER AUTHORITY

Basic Financial Statements
(Audited)

For The Year Ended

December 31, 2009

BOARD OF TRUSTEES



Mary Taylor, CPA
Auditor of State

Board of Trustees
Lakengren Water Authority
24 Lakengren Drive
Eaton, Ohio 45320

We have reviewed the *Independent Auditor's Report* of the Lakengren Water Authority, Preble County, prepared by Julian & Grube, Inc., for the audit period January 1, 2009 through December 31, 2009. 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

June 4, 2010

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**LAKENGREN WATER AUTHORITY
PREBLE COUNTY, OHIO**

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Julian & Grube, Inc.
Serving Ohio Local Governments

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Independent Auditor's Report

Board of Trustees
Lakengren Water Authority
Preble County
24 Lakengren Drive
Eaton, OH 45320-2609

To the Board of Trustees:

We have audited the accompanying financial statements of the business-type activities and each major enterprise fund of the Lakengren Water Authority, Preble County, Ohio, as of and for the year ended December 31, 2009, which collectively comprise Lakengren Water Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Lakengren Water Authority's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure 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 the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and each major enterprise fund of the Lakengren Water Authority, Preble County, Ohio, as of December 31, 2009, and the respective changes in financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 7, 2010, on our consideration of the Lakengren Water Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Independent Auditor's Report
Board of Trustees
Page Two

The management's discussion and analysis on pages 3 through 7 and Condition Assessment of the Lakengren Water Authority's Infrastructure Report Under the Modified Approach information on pages 25 through 32, are not required parts of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquires of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

A handwritten signature in cursive script that reads "Julian & Grube, Inc." The signature is written in black ink and is positioned above the printed name of the firm.

Julian & Grube, Inc.
April 7, 2010

**LAKENGREN WATER AUTHORITY
PREBLE COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2009**

The management's discussion and analysis of the Lakengren Water Authority's (the "Water Authority") financial performance provides an overall review of the Water Authority's financial activities for the year ended December 31, 2009. The intent of this discussion and analysis is to look at the Water Authority's financial performance as a whole; readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of the Water Authority's financial performance.

Financial Highlights

Key financial highlights for 2009 are as follows:

- In total, net assets were \$7,024,946 at December 31, 2009 which represents a 1.56% increase from December 31, 2008. Water fund net assets were \$2,332,487 and sewer fund net assets were \$4,692,459 at December 31, 2009.
- The Water Authority had operating revenues of \$1,051,002, operating expenses of \$937,029, non-operating revenues of \$64,774 and non operating expenses of \$70,549 for 2009. Total change in net assets for the year was an increase of \$108,198.

Using these Basic Financial Statements

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

Reporting the Water Authority's Financial Activities

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

These documents look at all financial transactions and ask the question, "How did we do financially during 2009?" The statement of net assets and the statement of revenues, expenses and changes in net assets answer this question. These statements include *all assets, liabilities, revenues and expenses* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting will take into account all of the current year's revenues and expenses regardless of when cash is received or paid.

These two statements report the Water Authority's *net assets* and changes in those assets. This change in net assets is important because it tells the reader that, for the Water Authority as a whole, the *financial position* of the Water Authority has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. These statements can be found on pages 8 and 9 of this report.

The Statement of Cash Flows provides information about how the Water Authority finances and meets the cash flow needs of its operations. The statement of cash flows can be found on pages 10-11 of this report.

The notes provide additional information that is essential to a full understanding of the data provided in the financial statements. These notes to the basic financial statements can be found on pages 12-24 of this report.

**LAKENGREN WATER AUTHORITY
PREBLE COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2009

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the Water Authority's condition assessment of the infrastructure reported under the modified approach. Required supplementary information can be found on pages 25-32 of this report.

The table below provides a summary of the Water Authority's net assets at December 31, 2009 and December 31, 2008.

	Net Assets	
	<u>December 31, 2009</u>	<u>December 31, 2008</u>
<u>Assets</u>		
Current assets	\$ 1,171,317	\$ 1,156,587
Noncurrent assets	8,753	9,075
Nondepreciable capital assets	4,865,891	4,824,892
Depreciable capital assets, net	<u>3,148,011</u>	<u>3,316,929</u>
Total assets	<u>9,193,972</u>	<u>9,307,483</u>
<u>Liabilities</u>		
Current liabilities	225,160	303,365
Long-term liabilities	<u>1,943,866</u>	<u>2,087,370</u>
Total liabilities	<u>2,169,026</u>	<u>2,390,735</u>
<u>Net Assets</u>		
Invested in capital assets, net of related debt	5,942,625	5,928,461
Restricted	8,753	9,075
Unrestricted	<u>1,073,568</u>	<u>979,212</u>
Total net assets	<u>\$ 7,024,946</u>	<u>\$ 6,916,748</u>

Over time, net assets can serve as a useful indicator of a government's financial position. At December 31, 2009, the Water Authority's net assets totaled \$7,024,946. Total net assets increased 1.56% from December 31, 2008.

At year-end, capital assets represented 87.16% of total assets. Capital assets consist of land, nondepreciable infrastructure, buildings, vehicles, equipment and depreciable infrastructure. Capital assets, net of related debt to acquire the assets at December 31, 2009 were \$5,942,625.

**LAKENGREN WATER AUTHORITY
PREBLE COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2009

The table below shows the changes in net assets for 2009 and 2008.

	<u>2009</u>	<u>2008</u>
<u>Operating Revenues:</u>		
Charges for services	\$ 1,039,830	\$ 1,049,127
Other	<u>11,172</u>	<u>5,349</u>
Total operating revenues	<u>1,051,002</u>	<u>1,054,476</u>
<u>Operating Expenses:</u>		
Personal services and fringe benefits	460,064	454,873
Operations and maintenance	88,658	79,220
Contractual services	62,441	81,545
Supplies and materials	50,898	87,358
Utilities	96,759	79,061
Depreciation	167,790	159,357
Other	<u>10,419</u>	<u>10,086</u>
Total operating expenses	<u>937,029</u>	<u>951,500</u>
<u>Non-operating Revenues (Expenses):</u>		
Interest income	16,074	34,426
Interest and fiscal charges	(70,549)	(70,218)
Gain (loss) on sale of capital assets	<u>48,700</u>	<u>(1,134)</u>
Total non-operating revenues	<u>(5,775)</u>	<u>(36,926)</u>
Change in net assets	108,198	66,050
Net assets at beginning of year	<u>6,916,748</u>	<u>6,850,698</u>
Net assets at end of year	<u>\$ 7,024,946</u>	<u>\$ 6,916,748</u>

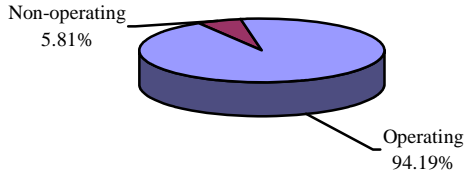
Operating revenues of the Water Authority decreased \$3,474 or 0.33% due mainly to a decrease in usage. Operating expenses of the Water Authority decreased \$14,471 or 1.52%. The most significant decreases were in the areas of contractual services and supplies and materials. Contractual services decreased \$19,104 or 23.43% due primarily to decreased spending in accounting and auditing services, insurance and other miscellaneous contractual services. Supplies and materials decreased \$36,460 or 41.74%. These significant decreases were offset by increases in utilities and depreciation.

**LAKENGREN WATER AUTHORITY
PREBLE COUNTY, OHIO**

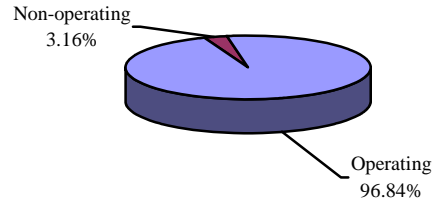
**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2009**

The charts below illustrate the revenues and expenses for the Water Authority during 2009 and 2008.

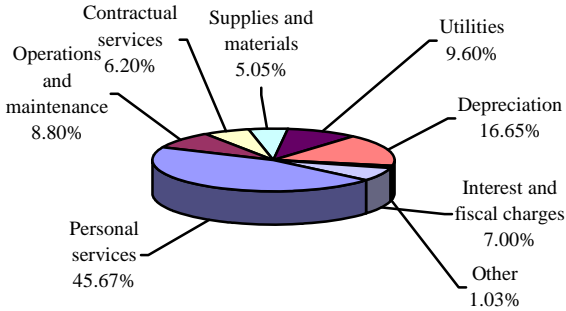
2009 Revenues



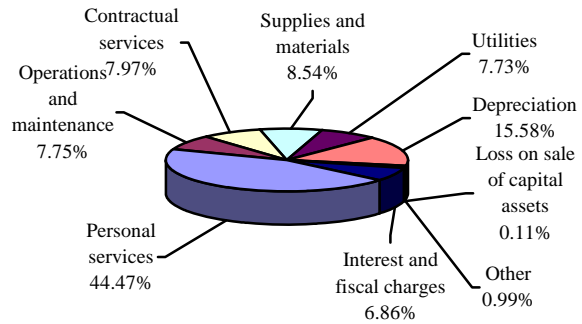
2008 Revenues



2009 Expenses



2008 Expenses



Capital Assets

At December 31, 2009, the Water Authority had \$8,013,902 invested in capital assets consisting of land, nondepreciable infrastructure, buildings, vehicles, equipment and depreciable infrastructure. The following table shows December 31, 2009's balances compared to December 31, 2008 (see note 7 to the basic financial statements):

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

	<u>Business-Type Activities</u>	
	<u>2009</u>	<u>2008</u>
Land	\$ 102,842	\$ 102,842
Nondepreciable infrastructure	4,763,049	4,722,050
Buildings	820,856	842,765
Vehicles	25,900	35,214
Equipment	9,078	13,995
Depreciable Infrastructure	<u>2,292,177</u>	<u>2,424,955</u>
Totals	<u>\$ 8,013,902</u>	<u>\$ 8,141,821</u>

**LAKENGREN WATER AUTHORITY
PREBLE COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2009**

Debt

At December 31, 2009, the Water Authority had water revenue bonds outstanding in the amount of \$600,000, \$75,000 of which is due in one year.

The water revenue bonds were issued in 2008 to fund the construction of a new administration building. Principal payments will be made from the water fund.

The Water Authority has an OWDA loan outstanding at December 31, 2009. The total amount of the outstanding loan is \$1,471,277 and bears an interest rate of 2.75% with a final maturity of July 1, 2026, \$68,940 of this loan is due in one year. The loan was issued for the construction of a new water treatment plant. The debt payments will be paid from the water fund.

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

Current Financial Related Activities

The Water Authority's net assets increased \$108,198 from 2008 to 2009. Sound financial management from the board of trustees and fiscal officer has provided stability during 2009.

Contacting the Water Authority's Financial Management

This financial report is designed to provide the citizens of the Lakengren community and the Water Authority's creditors with a general overview of the Water Authority's finances and to show accountability for the money it receives. If you have questions about this report or need additional financial information contact Kellie Rickard, Fiscal Officer, 24 Lakengren Drive West, Eaton, Ohio 45320-2858, 937-456-4455 or email to krickard@lakengrenh2o.org.

**BASIC
FINANCIAL STATEMENTS**

**LAKENGREN WATER AUTHORITY
PREBLE COUNTY, OHIO**

STATEMENT OF NET ASSETS
ENTERPRISE FUNDS AND TOTAL BUSINESS-TYPE ACTIVITIES
DECEMBER 31, 2009

	Business-Type Activities - Enterprise Funds		
	Water	Sewer	Total
Assets:			
Current assets:			
Equity in pooled cash and cash equivalents	\$ 560,417	\$ 107,348	\$ 667,765
Investments	104,040	104,040	208,080
Receivables:			
Accounts	88,377	152,884	241,261
Accrued interest	1,129	1,129	2,258
Materials and supplies inventory	7,099	32,547	39,646
Prepaid items	6,191	6,116	12,307
Total current assets	<u>767,253</u>	<u>404,064</u>	<u>1,171,317</u>
Non-current assets:			
Restricted assets:			
Cash with fiscal agent	8,753	-	8,753
Nondepreciable capital assets	2,697,476	2,168,415	4,865,891
Depreciable capital assets, net	989,329	2,158,682	3,148,011
Total noncurrent assets	<u>3,695,558</u>	<u>4,327,097</u>	<u>8,022,655</u>
Total assets	<u>4,462,811</u>	<u>4,731,161</u>	<u>9,193,972</u>
Liabilities:			
Current liabilities:			
Accounts payable	5,501	7,316	12,817
Accrued wages and benefits	6,053	5,826	11,879
Compensated absences payable	10,514	10,506	21,020
Intergovernmental payable	6,518	6,572	13,090
Water revenue bonds payable	75,000	-	75,000
OWDA loans payable	68,940	-	68,940
Accrued interest payable	22,414	-	22,414
Total current liabilities	<u>194,940</u>	<u>30,220</u>	<u>225,160</u>
Long-term liabilities:			
Compensated absences payable	8,047	8,482	16,529
Water revenue bonds payable	525,000	-	525,000
OWDA loans payable	1,402,337	-	1,402,337
Total long-term liabilities	<u>1,935,384</u>	<u>8,482</u>	<u>1,943,866</u>
Total liabilities	<u>2,130,324</u>	<u>38,702</u>	<u>2,169,026</u>
Net Assets:			
Invested in capital assets, net of related debt	1,615,528	4,327,097	5,942,625
Restricted for:			
Revenue bonds future debt service	8,753	-	8,753
Unrestricted	708,206	365,362	1,073,568
Total net assets	<u>\$ 2,332,487</u>	<u>\$ 4,692,459</u>	<u>\$ 7,024,946</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**LAKENGREN WATER AUTHORITY
PREBLE COUNTY, OHIO**

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
ENTERPRISE FUNDS AND TOTAL BUSINESS-TYPE ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2009

	Business-Type Activities - Enterprise Funds		
	Water	Sewer	Total
Operating revenues:			
Charges for services.	\$ 639,769	\$ 400,061	\$ 1,039,830
Other.	6,249	4,923	11,172
Total operating revenues.	<u>646,018</u>	<u>404,984</u>	<u>1,051,002</u>
Operating expenses:			
Personal services and fringe benefits.	243,121	216,943	460,064
Operations and maintenance.	27,291	61,367	88,658
Contractual services.	32,815	29,626	62,441
Supplies and materials.	42,198	8,700	50,898
Utilities.	35,675	61,084	96,759
Depreciation.	46,721	121,069	167,790
Other.	5,459	4,960	10,419
Total operating expenses.	<u>433,280</u>	<u>503,749</u>	<u>937,029</u>
Operating income (loss).	<u>212,738</u>	<u>(98,765)</u>	<u>113,973</u>
Non-operating revenues (expenses):			
Interest income.	10,324	5,750	16,074
Interest and fiscal charges.	(70,549)	-	(70,549)
Gain (loss) on sale of capital assets.	49,094	(394)	48,700
Total non-operating revenues (expenses).	<u>(11,131)</u>	<u>5,356</u>	<u>(5,775)</u>
Change in net assets.	201,607	(93,409)	108,198
Net assets at beginning of year	<u>2,130,880</u>	<u>4,785,868</u>	<u>6,916,748</u>
Net assets at end of year	<u>\$ 2,332,487</u>	<u>\$ 4,692,459</u>	<u>\$ 7,024,946</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**LAKENGREN WATER AUTHORITY
PREBLE COUNTY, OHIO**

STATEMENT OF CASH FLOWS
ENTERPRISE FUNDS AND TOTAL BUSINESS-TYPE ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2009

	Business-Type Activities - Enterprise Funds		
	Water	Sewer	Total
Cash flows from operating activities:			
Cash received from customers.	\$ 635,273	\$ 401,410	\$ 1,036,683
Cash received from other operations.	6,249	4,923	11,172
Cash payments for employee services and benefits. . .	(240,116)	(215,333)	(455,449)
Cash payments for operations and maintenance. . . .	(26,942)	(61,189)	(88,131)
Cash payments for contractual services.	(33,403)	(30,228)	(63,631)
Cash payments for supplies and materials.	(44,630)	(10,824)	(55,454)
Cash payments for utilities.	(33,723)	(55,733)	(89,456)
Cash payments for other expenses.	(4,521)	(4,243)	(8,764)
Net cash provided by operating activities.	<u>258,187</u>	<u>28,783</u>	<u>286,970</u>
Cash flows from capital and related financing activities:			
Acquisition of capital assets	(116,046)	(17,601)	(133,647)
Cash received from sale of assets	49,828	-	49,828
Principal paid on revenue bonds.	(75,000)	-	(75,000)
Principal paid on OWDA loans.	(67,083)	-	(67,083)
Interest paid on revenue bonds.	(29,487)	-	(29,487)
Interest paid on OWDA loans.	(42,256)	-	(42,256)
Net cash used in capital and related financing activities. .	<u>(280,044)</u>	<u>(17,601)</u>	<u>(297,645)</u>
Cash flows from investing activities:			
Interest received	11,195	5,706	16,901
Net cash provided by the maturity of investments . . .	101,795	-	101,795
Net cash payments for the purchase of investments . .	(4,040)	(4,040)	(8,080)
Net cash provided by investing activities	<u>108,950</u>	<u>1,666</u>	<u>110,616</u>
Net increase in cash and cash equivalents	87,093	12,848	99,941
Cash and cash equivalents at beginning of year (restated)	<u>482,077</u>	<u>94,500</u>	<u>576,577</u>
Cash and cash equivalents at end of year	<u>\$ 569,170</u>	<u>\$ 107,348</u>	<u>\$ 676,518</u>

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**LAKENGREN WATER AUTHORITY
PREBLE COUNTY, OHIO**

STATEMENT OF CASH FLOWS
ENTERPRISE FUNDS AND TOTAL BUSINESS-TYPE ACTIVITIES (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2009

	Business-Type Activities - Enterprise Funds		
	Water	Sewer	Total
Reconciliation of operating income (loss) to net cash provided by operating activities:			
Operating income (loss)	\$ 212,738	\$ (98,765)	\$ 113,973
Adjustments:			
Depreciation	46,721	121,069	167,790
Changes in assets and liabilities:			
(Increase) decrease in accounts receivable.	(4,496)	1,349	(3,147)
(Increase) in materials and supplies inventory.	(2,208)	(2,657)	(4,865)
(Increase) in prepaid items.	(578)	(419)	(997)
Increase in accounts payable.	1,319	5,022	6,341
Increase in accrued wages payable.	692	928	1,620
Increase in intergovernmental payable.	1,415	70	1,485
Increase in compensated absences.	2,584	2,186	4,770
Net cash provided by operating activities.	<u>\$ 258,187</u>	<u>\$ 28,783</u>	<u>\$ 286,970</u>

Non cash transactions:
During 2008, the water fund purchased \$92,648 in capital assets on account.

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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**LAKENGREN WATER AUTHORITY
PREBLE COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR YEAR ENDED DECEMBER 31, 2009**

NOTE 1 - REPORTING ENTITY

The Lakengren Water Authority (the "Water Authority") was organized in 1989 under the provisions of Chapter 6119 of the Ohio Revised Code (ORC) by the Common Pleas Court of Preble County, Ohio, for the purpose of operating a potable water production and distribution system for the Lakengren community. In 1998, the Water Authority assumed operation of a wastewater collection and treatment system, previously operated by Preble County. The Board of Trustees is responsible for the fiscal control of the assets and the operating funds of the Water Authority.

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

The reporting entity is comprised of the stand-alone government, component units and other organizations that are included to ensure that the financial statements of the Water Authority are not misleading. The stand-alone government consists of all departments, boards and agencies that are not legally separate from the Water Authority.

Component units are legally separate organizations for which the Water Authority is financially accountable. The Water Authority is financially accountable for an organization if the Water Authority appoints a voting majority of the organization's Governing Board and (1) the Water Authority is able to significantly influence the programs or services performed or provided by the organization; or (2) the Water Authority is legally entitled to or can otherwise access the organization's resources; or (3) the Water Authority is legally obligated or has otherwise assumed the responsibility to finance deficits of or provide financial support to the organization; or (4) the Water Authority is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the Water Authority in that the Water Authority approves their budget, the issuance of their debt or the levying of their taxes. Certain organizations are also included as component units if the nature and significance of the relationship between the primary government and the organization is such that exclusion by the primary government would render the primary governments financial statements incomplete or misleading. Based upon the application of these criteria, the Water Authority has no component units. The basic financial statements of the reporting entity include only those of the Water Authority (the primary government).

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Basis of Presentation

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

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

**LAKENGREN WATER AUTHORITY
PREBLE COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR YEAR ENDED DECEMBER 31, 2009

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

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.

The following are the major enterprise funds of the Water Authority:

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

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

B. Measurement Focus

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

C. Basis of Accounting

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

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

D. Cash and Cash Equivalents

To improve cash management, cash received by the Water Authority is pooled. Monies for both funds are maintained in this pool. Interest in the pool is presented as "equity in pooled cash and investments" on the financial statements. The Water Authority uses a financial institution to service bonded debt as principal and interest payments come due. The balances in the accounts held by these financial institutions are presented on the statement of net assets as "restricted assets: cash with fiscal agent".

During the year, investments were limited to nonnegotiable certificates of deposit, which are reported at cost.

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

**LAKENGREN WATER AUTHORITY
PREBLE COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR YEAR ENDED DECEMBER 31, 2009

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

E. Budgetary Process

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

Appropriations

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

Estimated Resources

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

Encumbrances

As part of formal budgetary control, purchase orders, contracts, and other commitments for the expenditure of funds are recorded in order to reserve the portion of the applicable appropriation. At the close of each year, the unencumbered balance of each appropriation reverts to the respective fund from which it was appropriated and becomes subject to future appropriations. The encumbered appropriation balance is carried forward to the succeeding year and need not be reappropriated.

F. Inventory

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

G. Prepaid Items

Payments made to vendors for services that will benefit periods beyond December 31, 2009 are recorded as prepaid items using the consumption method by recording a current asset for the prepaid amount and reflecting the expense in the year in which services are consumed.

H. Restricted Assets

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

**LAKENGREN WATER AUTHORITY
PREBLE COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR YEAR ENDED DECEMBER 31, 2009

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

I. Capital Assets

Capital assets utilized by the Water Authority are reported on the statement of net assets. All capital assets are capitalized at cost (or estimated historical cost which is determined by indexing the current replacement cost back to the year of acquisition) and are updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The Water Authority maintains a capitalization threshold of \$5,000. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

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

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

The Water Authority applies the modified approach for reporting to certain infrastructure assets. Under the modified approach the Water Authority has developed an asset management system that:

1. Keeps an up-to-date inventory of eligible infrastructure assets;
2. Performs a conditional assessment of those eligible infrastructure assets at least every three years using a consistent measurement scale; and,
3. Estimates each year the annual amount to maintain and preserve those assets at the condition level established and disclosed by the government.

The Water Authority documents that the eligible infrastructure assets are being maintained at a level equal to or above the condition level established by the Water Authority. Conditional assessments are performed on an annual basis for infrastructure assets in accordance with the Water Authority capital asset policy. When using the modified approach, expenses to extend the life of infrastructure assets are charged to expense, while expenses that add to or improve infrastructure assets are capitalized.

J. Compensated Absences

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

**LAKENGREN WATER AUTHORITY
PREBLE COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR YEAR ENDED DECEMBER 31, 2009

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

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

K. Net Assets

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

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

L. Operating and Nonoperating Revenues and Expenses

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

M. Contributions of Capital

Contributions of capital arise from outside contributions of capital assets or outside contributions of resources restricted to capital acquisition and construction. During 2009, there were no capital contributions.

N. Estimates

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

O. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Water Authority Administration and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during 2009.

**LAKENGREN WATER AUTHORITY
PREBLE COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR YEAR ENDED DECEMBER 31, 2009

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

Change in Accounting Principles

For 2009, the Water Authority has implemented GASB Statement No. 52, "Land and Other Real Estate Held as Investments by Endowments", GASB Statement No. 55, "The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments", GASB Statement No. 56 "Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards", and GASB Statement No. 57 "Other Postemployment Benefit (OPEB) Measurements by Agent Employers and Agent Multiple-Employers".

GASB Statement No. 52 improves the quality of financial reporting by requiring endowments to report their land and other real estate investments at fair value, creating consistency in reporting among similar entities that exist to invest resources for the purpose of generating income. The implementation of GASB Statement No. 52 did not have an effect on the financial statements of the Water Authority.

GASB Statement No. 55 incorporates the hierarchy of generally accepted accounting principles (GAAP) for state and local governments into the GASB's authoritative literature. The implementation of GASB Statement No. 55 did not have an effect on the financial statements of the Water Authority.

GASB Statement No. 56 incorporates into the GASB's authoritative literature certain accounting and financial reporting guidance presented in the American Institute of Certified Public Accountants' (AICPA) Statements on Auditing Standards. The implementation of GASB Statement No. 56 did not have an effect on the financial statements of the Water Authority.

GASB Statement No. 57 establishes standards for the measurement and financial reporting of actuarially determined information by agent employers with individual-employer OPEB plans that have fewer than 100 total plan members and by the agent multiple-employer OPEB plans in which they participate. The implementation of GASB Statement No. 57 did not have an effect on the financial statements of the Water Authority.

NOTE 4 - DEPOSITS AND INVESTMENTS

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

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

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.

**LAKENGREN WATER AUTHORITY
PREBLE COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR YEAR ENDED DECEMBER 31, 2009

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

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

Deposits

Custodial credit risk for deposits is the risk that in the event of bank failure, the Water Authority will not be able to recover deposits or collateral securities that are in the possession of an outside party. At year-end, the carrying value of the Water Authority deposits was \$884,598, which includes \$208,080 in nonnegotiable certificates of deposit. Based on the criteria described in GASB Statement No. 40, “Deposits and Investment Risk Disclosures”, as of December 31, 2009, \$318,570 of the Water Authority’s bank balance of \$889,961 was exposed to custodial credit risk as described below, while \$571,391 was covered by the Federal Deposit Insurance Corporation.

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

NOTE 5 - ACCOUNTS RECEIVABLE

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

NOTE 6 - LONG-TERM OBLIGATIONS

Changes in long-term obligations during the year ended December 31, 2009 were as follows:

	Balance at <u>12/31/08</u>	<u>Increase</u>	<u>Decrease</u>	Balance at <u>12/31/09</u>	Amounts Due in <u>One Year</u>
Series 2008 A untaxed revenue bonds 4.02% - 2008 - \$620,000	\$ 558,000	\$ -	\$ (62,000)	\$ 496,000	\$ 62,000
Series 2008 B taxed revenue bonds 6.03% - 2008 - \$130,000	117,000	-	(13,000)	104,000	13,000
OWDA Loan - 2.75% - 2005 - \$1,667,151	1,538,360	-	(67,083)	1,471,277	68,940
Compensated absences payable	<u>32,779</u>	<u>37,075</u>	<u>(32,305)</u>	<u>37,549</u>	<u>21,020</u>
Total long-term obligations	<u>\$ 2,246,139</u>	<u>\$ 37,075</u>	<u>\$ (174,388)</u>	<u>\$ 2,108,826</u>	<u>\$ 164,960</u>

**LAKENGREN WATER AUTHORITY
PREBLE COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR YEAR ENDED DECEMBER 31, 2009

NOTE 6 - LONG-TERM OBLIGATIONS - (Continued)

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

The series 2008A untaxed revenue bonds and series 2008B taxed revenue bonds are general obligations of the Water Authority for which the full faith and credit of the Water Authority has pledged future water customers revenues, net of specific operating expenses, to repay the bonds that were used to construct a new administration building. The bonds are payable solely from water customer net revenues and are payable through 2017. Annual principal and interest payments on the bonds are expected to require approximately 40.38% of net revenues. Principal and interest paid for the current year and total water customer net revenues were \$75,000 and \$29,487, respectively.

The Water Authority has an Ohio Water Development Authority (OWDA) Loan outstanding at December 31, 2009. The total amount of the loan issued was \$1,667,151 and bears an interest rate of 2.75 percent with final maturity on July 1, 2026. The loan was issued for the construction of a new water treatment plant. The debt payments will be paid from the water fund.

Principal and interest requirements to retire the bonds and loan outstanding at December 31, 2009 are:

Year Ending December 31,	Revenue Bonds Principal	Revenue Bonds Interest	Total Revenue Bonds	OWDA Loan Principal	OWDA Loan Interest	Total OWDA Loan
2010	\$ 75,000	\$ 26,210	\$ 101,210	\$ 68,940	\$ 39,989	\$ 108,929
2011	75,000	22,934	97,934	70,849	38,081	108,930
2012	75,000	19,657	94,657	72,811	36,119	108,930
2013	75,000	16,382	91,382	74,827	34,103	108,930
2014	75,000	13,105	88,105	76,898	32,031	108,929
2015 - 2019	225,000	19,658	244,658	417,635	127,021	544,656
2020 - 2024	-	-	-	478,747	65,900	544,647
2025 - 2026	-	-	-	210,570	7,288	217,858
Total	<u>\$ 600,000</u>	<u>\$ 117,946</u>	<u>\$ 717,946</u>	<u>\$ 1,471,277</u>	<u>\$ 380,532</u>	<u>\$ 1,851,809</u>

**LAKENGREN WATER AUTHORITY
PREBLE COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR YEAR ENDED DECEMBER 31, 2009

NOTE 7 - CAPITAL ASSETS

Capital asset activity during 2009 was as follows:

	Balance 12/31/2008	Additions	Deletions	Balance 12/31/2009
Capital assets, not being depreciated:				
Land	\$ 102,842	\$ -	\$ -	\$ 102,842
Infrastructure	4,722,050	40,999	-	4,763,049
Total capital assets not being depreciated	<u>4,824,892</u>	<u>40,999</u>	<u>-</u>	<u>4,865,891</u>
Depreciable capital assets:				
Buildings	930,692	-	(43,510)	887,182
Vehicles	95,927	-	-	95,927
Equipment	165,319	-	-	165,319
Infrastructure	4,068,446	-	-	4,068,446
Total depreciable capital assets	<u>5,260,384</u>	<u>-</u>	<u>(43,510)</u>	<u>5,216,874</u>
Less: accumulated depreciation:				
Buildings	(87,927)	(20,781)	42,382	(66,326)
Vehicles	(60,713)	(9,314)	-	(70,027)
Equipment	(151,324)	(4,917)	-	(156,241)
Infrastructure	<u>(1,643,491)</u>	<u>(132,778)</u>	<u>-</u>	<u>(1,776,269)</u>
Total accumulated depreciation	<u>(1,943,455)</u>	<u>(167,790)</u>	<u>42,382</u>	<u>(2,068,863)</u>
Total assets being depreciated, net	<u>3,316,929</u>	<u>(167,790)</u>	<u>(1,128)</u>	<u>3,148,011</u>
Business-type activities capital assets, net	<u>\$ 8,141,821</u>	<u>\$ (126,791)</u>	<u>\$ (1,128)</u>	<u>\$ 8,013,902</u>

**LAKENGREN WATER AUTHORITY
PREBLE COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR YEAR ENDED DECEMBER 31, 2009

NOTE 8 - RISK MANAGEMENT

The Water Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. During 2009, the Water Authority contracted with the HCC Insurance Company for various types of insurance as follows:

Coverage	Limit	Deductible
Property	\$5,713,975	\$500
General Liability:		
Per Occasion	1,000,000	None
Aggregate	3,000,000	None
Public Officials	1,000,000	None
Electronic Data		
Processing	50,000	500
Systems Breakdown	500,000	None
Valuable Papers	100,000	500
Contractors Equipment	37,360	500
Crime:		
Employee Dishonesty	100,000	500
Employee Theft	50,000	500
Money and Securities	25,000	500
Automobile:		
Liability	1,000,000	None
Comprehensive	Actual Cash Value	250
Collision	Actual Cash Value	500

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

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

NOTE 9 - OTHER EMPLOYEE BENEFITS

A. Insurance Benefits

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

**LAKENGREN WATER AUTHORITY
PREBLE COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR YEAR ENDED DECEMBER 31, 2009

NOTE 9 - OTHER EMPLOYEE BENEFITS - (Continued)

B. Compensated Absences

Accumulated Unpaid Vacation Leave

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

Accumulated Unpaid Sick Leave

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

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

NOTE 10 - PENSION PLAN

Ohio Public Employees Retirement System

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

OPERS provides retirement, disability, survivor and death benefits and annual cost of living adjustments to members of the Traditional Pension and the Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report that may be obtained by writing to OPERS, Attention: Finance Director, 277 E. Town St., Columbus, OH 43215-4642 or by calling (614) 222-5601 or (800) 222-7377.

**LAKENGREN WATER AUTHORITY
PREBLE COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR YEAR ENDED DECEMBER 31, 2009**

NOTE 10 - PENSION PLAN - (Continued)

Funding Policy - The Ohio Revised Code provides statutory authority for member and employer contributions. For 2009, member and contribution rates were consistent across all three plans. The 2009 member contribution rates were 10.00%. The Water Authority's contribution rate for 2009 was 14.00%.

The Water Authority's contribution rate for pension benefits for 2009 was 7.00% from January 1 through March 31, 2009 and 8.50% from April 1 through December 31, 2009. The Water Authority's required contributions for pension obligations to the Traditional Pension and Combined Plans for the years ended December 31, 2009, 2008 and 2007 were \$27,000, \$22,502 and \$29,754, respectively; 92.52% has been contributed for 2009 and 100% has been contributed for 2008 and 2007.

NOTE 11 - POSTRETIREMENT BENEFIT PLAN

Ohio Public Employees Retirement System

Plan Description - OPERS maintains a cost-sharing multiple employer defined benefit post-employment healthcare plan, which includes a medical plan, prescription drug program and Medicare Part B premium reimbursement, to qualifying members of both the Traditional Pension and the Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits, including post-employment health care coverage.

To qualify for post-employment health care coverage, age-and-service retirees under the Traditional Pension and Combined Plans must have ten years or more of qualifying Ohio service credit. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available. The health care coverage provided by OPERS meets the definition of an Other Post Employment Benefit (OPEB) as described in GASB State 45. The Ohio Revised Code permits, but not does mandate, OPERS to provide OPEB benefits to its eligible members and beneficiaries. Authority to establish and amend benefits is provided in Chapter 145 of the Ohio Revised Code.

Disclosures for the healthcare plan are presented separately in the OPERS financial report which may be obtained by writing to OPERS, Attention: Finance Director, 277 E. Town St., Columbus, OH 43215-4642 or by calling (614) 222-5601 or (800) 222-7377.

Funding Policy - The post-employment healthcare plan was established under, and is administrated in accordance with, Internal Revenue Code 401(h). State statute requires that public employers fund post-employment healthcare through contributions to OPERS. A portion of each employer's contribution to the Traditional or Combined Plans is set aside for the funding of post-employment health care.

Employer contribution rates are expressed as a percentage of the covered payroll of active employees. In 2009, local government employers contributed 14.00% of covered payroll. Each year the OPERS Retirement Board determines the portion of the employer contribution rate that will be set aside for the funding of the postemployment health care benefits. The portion of employer contributions allocated to fund post-employment healthcare for 2009 was 7.00% from January 1 through March 31, 2009 and 5.50% from April 1 through December 31, 2009.

**LAKENGREN WATER AUTHORITY
PREBLE COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR YEAR ENDED DECEMBER 31, 2009

NOTE 11 - POSTRETIREMENT BENEFIT PLAN - (Continued)

The OPERS Retirement Board is also authorized to establish rules for the payment of a portion of the health care benefits provided, by the retiree or their surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected. Active members do not make contributions to the post-employment healthcare plan.

The Water Authority's contributions allocated to fund post-employment health care benefits for the years ended December 31, 2009, 2008 and 2007 were \$19,361, \$22,502 and \$19,696, respectively; 92.52% has been contributed for 2009 and 100% has been contributed for 2008 and 2007.

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

NOTE 12 - LEASES

The Water Authority entered into an operating lease with a property owner outside the Lakengren Subdivision for real property. The lease of the property allows for extracting water found in or under the leased property. The term of this lease commenced April 1, 2004 and remains in force for a primary term of 99 years, provided the Ohio EPA approves the leased premises as a well site and the well continues to produce clean, useable water in acceptable quantities. The lease payments for the year ended December 31, 2009 were \$621 through March 31, 2009. The monthly payments increased by 5.80 percent to \$657 per month effective April 1, 2009. The monthly lease payments shall be adjusted annually to the government's published rate of inflation.

The estimated future minimum lease payments, at the current rate, as of December 31, 2009 are as follows:

Year Ending December 31,	Amount	Year Ending December 31,	Amount
2010	\$ 7,884	2050 - 2054	\$ 39,420
2011	7,884	2055 - 2059	39,420
2012	7,884	2060 - 2064	39,420
2013	7,884	2065 - 2069	39,420
2014	7,884	2070 - 2074	39,420
2015 - 2019	39,420	2075 - 2079	39,420
2020 - 2024	39,420	2080 - 2084	39,420
2025 - 2029	39,420	2085 - 2089	39,420
2030 - 2034	39,420	2090 - 2094	39,420
2035 - 2039	39,420	2095 - 2099	39,420
2040 - 2044	39,420	2100 - 2103	<u>31,536</u>
2045 - 2049	39,420		
		Total	<u>\$ 741,096</u>

REQUIRED SUPPLEMENTARY INFORMATION

**LAKENGREN WATER AUTHORITY
PREBLE COUNTY, OHIO**

REQUIRED SUPPLEMENTARY INFORMATION
CONDITION ASSESSMENT OF THE INFRASTRUCTURE REPORTED
UNDER THE MODIFIED APPROACH
FOR THE YEAR ENDED DECEMBER 31, 2009

Lakengren Water Authority (the “Water Authority”) reports certain infrastructure assets using the modified approach as outlined in Governmental Accounting Standard Board (GASB) Statement No. 34. The following disclosures pertain to the conditional assessment and budgeted versus actual expenses for the preservation of these assets. The conditional assessment is presented in each of the following sections for the years ended December 31, 2009, 2008, 2007 and the nine months ended December 31, 2006 which is also the year in which the Water Authority implemented the modified approach.

All infrastructure asset conditions are evaluated and rated based on the following criteria:

Rating of Asset	Condition	Description
1	Excellent	Basically sound, new equipment requiring no work
2	Good	Acceptable; minor wear; requires little work
3	Fair	Showing wear but functionally sound. Rehab needed soon to avoid progression to rating 4.
4	Poor	Function, but with a high degree of maintenance. Major work required.
5	Critical	Asset has failed or will fail imminently

A. Water Fund

Wells

Wells include production and monitoring wells. The Water Authority’s policy states that all wells will be maintained at level two or higher. The following is a summary of the conditional assessment for the wells:

<u>Well Condition</u>	<u>Number of Wells</u>	<u>Percent of Total</u>
1 - Excellent	1	14.29%
2 - Good	6	85.71%
Total	<u>7</u>	<u>100.00%</u>

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

<u>Year Ended</u>	<u>Budgeted Expenses</u>	<u>Actual Expenses</u>	<u>Difference</u>
12/31/2006	\$2,300	\$1,990	\$310
12/31/2007	7,900	7,277	623
12/31/2008	10,500	8,019	2,481
12/31/2009	10,500	10,307	193

**LAKENGREN WATER AUTHORITY
PREBLE COUNTY, OHIO**

REQUIRED SUPPLEMENTARY INFORMATION
CONDITION ASSESSMENT OF THE INFRASTRUCTURE REPORTED
UNDER THE MODIFIED APPROACH
FOR THE YEAR ENDED DECEMBER 31, 2009

Treatment Plant

The Water Authority has one water treatment plant that is rated at a level 1. The Water Authority's policy is to maintain the water treatment plant at a level 2 or higher. The following is a comparison of the Water Authority's budgeted and actual expenses for maintaining the water treatment plant:

<u>Year Ended</u>	<u>Budgeted Expenses</u>	<u>Actual Expenses</u>	<u>Difference</u>
12/31/2006	\$4,581	\$2,330	\$2,251
12/31/2007	1,000	1,482	(482)
12/31/2008	500	0	500
12/31/2009	1,000	403	597

Generator

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

<u>Year Ended</u>	<u>Budgeted Expenses</u>	<u>Actual Expenses</u>	<u>Difference</u>
12/31/2006	\$600	\$648	(\$48)
12/31/2007	700	0	700
12/31/2008	700	26	674
12/31/2009	700	0	700

Control Panel

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

<u>Year Ended</u>	<u>Budgeted Expenses</u>	<u>Actual Expenses</u>	<u>Difference</u>
12/31/2006	\$150	\$164	(\$14)
12/31/2007	500	0	500
12/31/2008	500	0	500
12/31/2009	500	0	500

Meters

The Water Authority has 1,376 water meters. The Water Authority's policy states that 80 percent of all water meters will be maintained at level two or higher.

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

Meter Condition	Number of Water Meters	Percent of Total
1 - Excellent	548	39.83%
2 - Good	828	60.17%
Total	<u>1,376</u>	<u>100.00%</u>

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

Year Ended	Budgeted Expenses	Actual Expenses	Difference
12/31/2006	\$3,500	\$2,845	\$655
12/31/2007	3,000	1,184	1,816
12/31/2008	50,000	31,720	18,280
12/31/2009	27,000	23,413	3,587

Water Towers

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

Year Ended	Budgeted Expenses	Actual Expenses	Difference
12/31/2006	\$7,151	\$7,132	\$19
12/31/2007	10,000	9,470	530
12/31/2008	10,000	9,470	530
12/31/2009	10,000	10,303	(303)

Shutoff Valves

The Water Authority has 179 water shutoff valves. The Water Authority's policy states that 80 percent of all shutoff valves will be maintained at level two or higher. The following is a summary of the conditional assessment for the shutoff valves:

Shutoff Valves Condition	Number of Shutoff Valves	Percent of Total
1 - Excellent	13	7.26%
2 - Good	162	90.50%
3 - Fair	4	2.24%
Total	<u>179</u>	<u>100.00%</u>

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

<u>Year Ended</u>	<u>Budgeted Expenses</u>	<u>Actual Expenses</u>	<u>Difference</u>
12/31/2006	\$3,100	\$5,986	(\$2,886)
12/31/2007	6,000	0	6,000
12/31/2008	1,000	0	1,000
12/31/2009	1,000	0	1,000

Hydrants

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

<u>Year Ended</u>	<u>Budgeted Expenses</u>	<u>Actual Expenses</u>	<u>Difference</u>
12/31/2006	\$600	\$549	\$51
12/31/2007	600	565	35
12/31/2008	600	100	500
12/31/2009	1,000	505	495

B. Sewer Fund

Manholes

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

<u>Manholes Condition</u>	<u>Number of Manholes</u>	<u>Percent of Total</u>
1 - Excellent	1	0.23%
2 - Good	395	88.96%
3 - Fair	44	9.91%
4 - Poor	4	0.90%
Total	444	100.00%

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

<u>Year Ended</u>	<u>Budgeted Expenses</u>	<u>Actual Expenses</u>	<u>Difference</u>
12/31/2006	\$1,000	\$1,170	(\$170)
12/31/2007	1,000	1,249	(249)
12/31/2008	1,300	762	538
12/31/2009	1,000	0	1,000

Lift Stations

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

<u>Year Ended</u>	<u>Budgeted Expenses</u>	<u>Actual Expenses</u>	<u>Difference</u>
12/31/2006	\$16,000	\$1,669	\$14,331
12/31/2007	16,000	7,816	8,184
12/31/2008	13,000	13,982	(982)
12/31/2009	5,000	6,312	(1,312)

Grinder Pumps

The Water Authority has 135 grinder pumps. The Water Authority's policy states that 80 percent of all grinder pumps will be maintained at level two or higher. The following is a summary of the conditional assessment for the grinder pumps:

<u>Grinder Pump Condition</u>	<u>Number of Grinder Pumps</u>	<u>Percent of Total</u>
2 - Good	114	84.44%
3 - Fair	21	15.56%
Total	135	100.00%

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

<u>Year Ended</u>	<u>Budgeted Expenses</u>	<u>Actual Expenses</u>	<u>Difference</u>
12/31/2006	\$34,100	\$23,052	\$11,048
12/31/2007	14,000	13,618	382
12/31/2008	31,500	35,846	(4,346)
12/31/2009	37,000	18,975	18,025

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Basins

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

<u>Year Ended</u>	<u>Budgeted Expenses</u>	<u>Actual Expenses</u>	<u>Difference</u>
12/31/2006	\$800	\$0	\$800
12/31/2007	6,000	3,508	2,492
12/31/2008	1,000	1,972	(972)
12/31/2009	1,500	5,857	(4,357)

Aerators

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

<u>Year Ended</u>	<u>Budgeted Expenses</u>	<u>Actual Expenses</u>	<u>Difference</u>
12/31/2006	\$4,500	\$3,792	\$708
12/31/2007	4,700	3,917	783
12/31/2008	4,700	1,830	2,870
12/31/2009	4,700	0	4,700

Downdraft Mixer

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

<u>Year Ended</u>	<u>Budgeted Expenses</u>	<u>Actual Expenses</u>	<u>Difference</u>
12/31/2006	\$400	\$311	\$89
12/31/2007	500	0	500
12/31/2008	500	0	500
12/31/2009	1,000	0	1,000

Clarifiers

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

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

<u>Year Ended</u>	<u>Budgeted Expenses</u>	<u>Actual Expenses</u>	<u>Difference</u>
12/31/2006	\$1,000	\$0	\$1,000
12/31/2007	1,000	0	1,000
12/31/2008	1,000	0	1,000
12/31/2009	500	80	420

RBC Units

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

<u>Year Ended</u>	<u>Budgeted Expenses</u>	<u>Actual Expenses</u>	<u>Difference</u>
12/31/2006	\$800	\$0	\$800
12/31/2007	1,000	1,539	(539)
12/31/2008	1,000	0	1,000
12/31/2009	500	9,052	(8,552)

UV Lights

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

<u>Year Ended</u>	<u>Budgeted Expenses</u>	<u>Actual Expenses</u>	<u>Difference</u>
12/31/2006	\$800	\$0	\$800
12/31/2007	800	558	242
12/31/2008	1,000	596	404
12/31/2009	1,000	0	1,000

Drying Beds

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

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

<u>Year Ended</u>	<u>Budgeted Expenses</u>	<u>Actual Expenses</u>	<u>Difference</u>
12/31/2006	\$800	\$0	\$800
12/31/2007	800	313	487
12/31/2008	1,000	1,404	(404)
12/31/2009	0	0	0

Wastewater Treatment Plant

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

<u>Year Ended</u>	<u>Budgeted Expenses</u>	<u>Actual Expenses</u>	<u>Difference</u>
12/31/2006	\$7,250	\$6,179	\$1,071
12/31/2007	400	867	(467)
12/31/2008	1,400	1,799	(399)
12/31/2009	1,400	8,473	(7,073)

Blower and Polymer Building

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

<u>Year Ended</u>	<u>Budgeted Expenses</u>	<u>Actual Expenses</u>	<u>Difference</u>
12/31/2006	\$4,000	\$4,311	(\$311)
12/31/2007	1,400	700	700
12/31/2008	1,400	0	1,400
12/31/2009	1,400	0	765



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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
24 Lakengren Drive
Eaton, Ohio 45320-2609

We have audited the business-type activities and each major enterprise fund of the Lakengren Water Authority, Preble County, Ohio, as of and for the year ended December 31, 2009, which collectively comprise the Lakengren Water Authority's basic financial statements and have issued our report thereon dated April 7, 2010. 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 the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A material weakness is a deficiency, or combination of internal control deficiencies resulting in more than a reasonable possibility that a material misstatement of the Lakengren Water Authority's financial statements will not be prevented, or detected and timely corrected.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

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

Board of Trustees
Lakengren Water Authority

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

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

Julian & Grube, Inc.
April 7, 2010



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
JUNE 17, 2010