

***LAKENGREN WATER AUTHORITY***

**PREBLE COUNTY, OHIO**

**AUDIT REPORT**

**For the Year Ended December 31, 2012**







# Dave Yost • Auditor of State

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

We have reviewed the *Independent Auditor's Report* of Lakengren Water Authority, Preble County, prepared by Charles E. Harris & Associates, Inc., for the audit period January 1, 2012 through December 31, 2012. 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. Lakengren Water Authority is responsible for compliance with these laws and regulations.

A handwritten signature in black ink that reads "Dave Yost".

Dave Yost  
Auditor of State

September 11, 2013

**LAKENGREN WATER AUTHORITY**  
**PREBLE COUNTY**  
**AUDIT REPORT**  
For the Year Ended December 31, 2012

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***Charles E. Harris & Associates, Inc.***

*Certified Public Accountants*

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**INDEPENDENT AUDITOR'S REPORT**

Lakengren Water Authority  
Preble County  
24 Lakengren Drive  
Eaton, Ohio 45320

To the Board of Trustees:

***Report on the Financial Statements***

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 (the Water Authority), as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the Water Authority's basic financial statements as listed in the table of contents.

***Management's Responsibility for the Financial Statements***

Management is responsible for preparing and fairly presenting these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes designing, implementing, and maintaining internal control relevant to preparing and fairly presenting financial statements that are free from material misstatement, whether due to fraud or error.

***Auditor's Responsibility***

Our responsibility is to opine on these financial statements based on our audit. We audited in accordance with auditing standards generally accepted in the United States of America and the financial audit standards in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require us to plan and perform the audit to reasonably assure the financial statements are free from material misstatement.

An audit requires obtaining evidence about financial statement amounts and disclosures. The procedures selected depend on our judgment, including assessing the risks of material financial statement misstatement, whether due to fraud or error. In assessing those risks, we consider internal control relevant to the Water Authority's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not to the extent needed to opine on the effectiveness of the Water Authority's internal control. Accordingly, we express no opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of the overall financial statement presentation.

We believe the audit evidence we obtained is sufficient and appropriate to support our audit opinions.

***Opinion***

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, 2012, and the respective changes in financial position and cash flows, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

***Emphasis of Matter***

As discussed in Note 3 to the financial statements, in 2012 the Water Authority adopted Governmental Accounting Standards Board Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* and Governmental Accounting Standards Board Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to this matter.

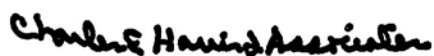
***Other Matters***

***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require this presentation to include management's discussion and analysis and schedules for infrastructure assets using the modified approach, as listed in the table of contents, to supplement the basic financial statements. Although this information is not part of the basic financial statements, the Governmental Accounting Standards Board considers it essential for placing the basic financial statements in an appropriate operational, economic, or historical context. We applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, consisting of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, to the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not opine or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to opine or provide any other assurance.

***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated June 28, 2013, on our consideration of the Water Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Water Authority's internal control over financial reporting and compliance.



Charles E. Harris & Associates, Inc.  
June 28, 2013

**Lakengren Water Authority  
Preble County, Ohio**

Management's Discussion and Analysis  
For the Year Ended December 31, 2012  
(Unaudited)

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, 2012. 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 2012 are as follows:

- In total, net position was \$7,375,010 at December 31, 2012 which represents a 1.24% increase from December 31, 2011. Water fund net position was \$2,833,226 and sewer fund net position was \$4,541,784 at December 31, 2012.
- The Water Authority had operating revenues of \$1,119,202, operating expenses of \$974,616, non-operating revenues of \$251 and non operating expenses of \$54,522 for 2012. Total change in net position for the year was an increase of \$90,315.

**Using this Financial Report**

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 position and statement of revenues, expenses and changes in net position 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 Position, Statement of Revenues, Expenses, and Changes in Net Position and the Statement of Cash Flows.

These documents look at all financial transactions and ask the question, "How did we do financially during 2012?" The statement of net position and the statement of revenues, expenses and changes in net position answer this question. These statements include all assets, liabilities, deferred outflows of resources, and deferred inflows of resources, 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 position and changes in those positions. This change in net position 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.

**Lakengren Water Authority  
Preble County, Ohio**

Management's Discussion and Analysis  
For the Year Ended December 31, 2012  
(Unaudited)

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

The notes provide additional information that is essential to a full understanding of the data provided in the financial statements. These notes to the basic financial statements can be found on pages 12-25 of this report.

In addition to the basic financial statements and accompanying notes, this report also presents certain supplementary information concerning the Water Authority's condition assessment of the infrastructure reported under the modified approach. Supplementary information can be found on pages 26-36 of this report.

The table below provides a summary of the Water Authority's net position at December 31, 2012 and December 31, 2011.

	Net Position	
	<u>2012</u>	<u>2011</u>
<b><u>Assets:</u></b>		
Current and other assets	\$ 1,448,648	\$ 1,342,027
Noncurrent assets	8,869	9,119
Nondepreciable capital assets	4,992,241	4,992,241
Capital assets, net of depreciation	<u>2,672,623</u>	<u>2,831,536</u>
Total assets	<u>9,122,381</u>	<u>9,174,923</u>
<b><u>Liabilities:</u></b>		
Current and other liabilities	79,625	72,763
Long-term liabilities:		
Due within one year	165,034	165,464
Due in more than one year	<u>1,502,712</u>	<u>1,652,001</u>
Total liabilities	<u>1,747,371</u>	<u>1,890,228</u>
<b><u>Net Position:</u></b>		
Net investment in capital assets	6,031,187	6,042,289
Restricted	8,869	9,119
Unrestricted	<u>1,334,954</u>	<u>1,233,287</u>
Total net position	<u>\$ 7,375,010</u>	<u>\$ 7,284,695</u>

Over time, net position can serve as a useful indicator of a government's financial position. At December 31, 2012, the Water Authority's net position totaled \$7,375,010. Total net position increased 1.24% from December 31, 2011.



**Lakengren Water Authority**  
**Preble County, Ohio**

Management's Discussion and Analysis  
For the Year Ended December 31, 2012  
(Unaudited)

At year-end, capital assets represented 84.02% 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, 2012 were \$6,031,187.

The table below shows the changes in net position for 2012 and 2011.

Change in Net Position

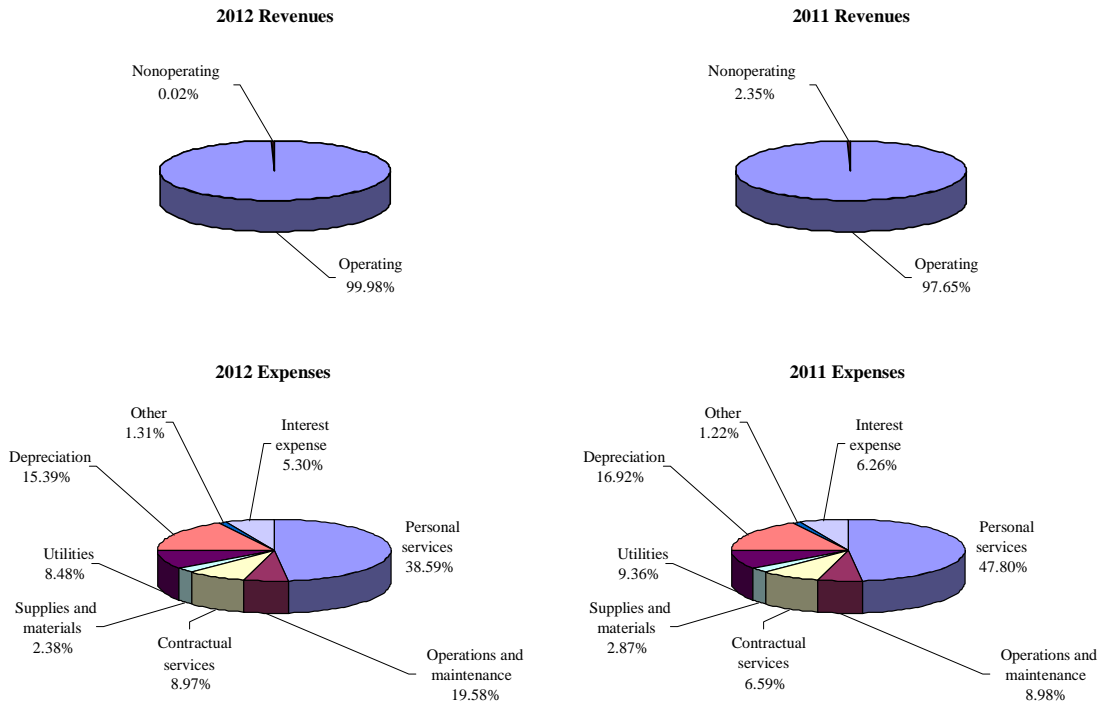
	<u>2012</u>	<u>2011</u>
<u>Operating revenues:</u>		
Charges for services	\$ 1,109,345	\$ 1,017,820
Other revenues	<u>9,857</u>	<u>20,653</u>
Total operating revenues	<u>1,119,202</u>	<u>1,038,473</u>
 <u>Operating expenses:</u>		
Personal services	397,181	457,214
Operations and maintenance	201,507	85,927
Contractual services	92,330	63,045
Supplies and materials	24,452	27,455
Utilities	87,254	89,483
Depreciation	158,413	161,808
Other	<u>13,479</u>	<u>11,697</u>
Total operating expenses	<u>974,616</u>	<u>896,629</u>
 Operating income	 <u>144,586</u>	 <u>141,844</u>
 <u>Nonoperating revenues (expenses):</u>		
Interest income	251	3,858
Interest and fiscal charges	<u>(54,522)</u>	<u>(59,849)</u>
Total non-operating revenues (expenses)	<u>(54,271)</u>	<u>(55,991)</u>
 Increase in net position	 90,315	 85,853
 Net position at beginning of year	 <u>7,284,695</u>	 <u>7,198,842</u>
Net position at end of year	<u>\$ 7,375,010</u>	<u>\$ 7,284,695</u>

Operating revenues of the Water Authority increased \$80,729 or 7.77% due mainly to an increase in charges for services. Operating expenses of the Water Authority also increased \$77,987 or 8.70% due to an increase in operations and maintenance expenses.

The charts below illustrate the revenues and expenses for the Water Authority during 2012 and 2011.

**Lakengren Water Authority  
Preble County, Ohio**

Management's Discussion and Analysis  
For the Year Ended December 31, 2012  
(Unaudited)



**Capital Assets**

At December 31, 2012, the Water Authority had \$7,664,864 invested in capital assets consisting of land, nondepreciable infrastructure, buildings, vehicles, equipment and depreciable infrastructure. The following table shows December 31, 2012's balances compared to December 31, 2011 (see note 7 to the basic financial statements):

Capital Assets, at Year End  
(Net of Depreciation)

	<u>2012</u>	<u>2011</u>
Land	\$ 102,842	\$ 102,842
Nondepreciable infrastructure	4,889,399	4,889,399
Buildings	758,513	779,294
Vehicles	10,663	14,305
Equipment	7,030	9,892
Depreciable infrastructure	<u>1,896,417</u>	<u>2,028,045</u>
Total capital assets	<u>\$ 7,664,864</u>	<u>\$ 7,823,777</u>

**Lakengren Water Authority  
Preble County, Ohio**

Management's Discussion and Analysis  
For the Year Ended December 31, 2012  
(Unaudited)

**Debt**

At December 31, 2012, the Water Authority had water revenue bonds outstanding in the amount of \$375,000, \$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, 2012. The total amount of the outstanding loan is \$1,258,677 and bears an interest rate of 2.75% with a final maturity of July 1, 2026, \$74,827 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 position increased \$90,315 from 2011 to 2012. Sound financial management from the board of trustees and fiscal officer has provided stability during 2012.

**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](mailto:krickard@lakengrenh2o.org).

**Lakengren Water Authority**  
**Preble County, Ohio**  
Statement of Net Position  
December 31, 2012

	Business-Type Activities - Enterprise Funds		
	Water	Sewer	Total
<u>Assets:</u>			
Current assets:			
Equity in pooled cash and cash equivalents	\$ 297,760	\$ 18,086	\$ 315,846
Cash and cash equivalents:			
In segregated accounts	453,651	342,491	796,142
Receivables:			
Accounts	61,793	37,187	98,980
Special assessments	32,976	127,880	160,856
Materials and supplies inventory	8,707	46,400	55,107
Prepaid items	3,547	18,170	21,717
Total current assets	858,434	590,214	1,448,648
Non-current assets:			
Restricted assets:			
Cash with fiscal agent	8,869	-	8,869
Nondepreciable capital assets	2,789,595	2,202,646	4,992,241
Depreciable capital assets, net	864,928	1,807,695	2,672,623
Total non-current assets	3,663,392	4,010,341	7,673,733
Total assets	\$ 4,521,826	\$ 4,600,555	\$ 9,122,381
<u>Liabilities:</u>			
Current liabilities:			
Accounts payable	\$ 6,200	\$ 17,500	\$ 23,700
Accrued wages and benefits	7,086	7,319	14,405
Compensated absences payable	5,216	9,991	15,207
Intergovernmental payable	11,124	11,044	22,168
Accrued interest payable	19,352	-	19,352
OWDA loans payable	74,827	-	74,827
Water revenue bonds payable	75,000	-	75,000
Total current liabilities	198,805	45,854	244,659
Long-term liabilities:			
Compensated absences payable	5,945	12,917	18,862
OWDA loans payable, net of current portion	1,183,850	-	1,183,850
Water revenue bonds payable, net of current portion	300,000	-	300,000
Total long-term liabilities	1,489,795	12,917	1,502,712
Total liabilities	1,688,600	58,771	1,747,371
<u>Net position:</u>			
Net investment in capital assets	2,020,846	4,010,341	6,031,187
Restricted for:			
Revenue bonds future debt service	8,869	-	8,869
Unrestricted	803,511	531,443	1,334,954
Total net position	\$ 2,833,226	\$ 4,541,784	\$ 7,375,010

See accompanying notes to the basic financial statements.

**Lakengren Water Authority**  
**Preble County, Ohio**

Statement of Revenues, Expenses and Changes in Fund Net Position  
For the Year Ended December 31, 2012

	Business-Type Activities - Enterprise Funds		
	Water	Sewer	Total
<u>Operating revenues:</u>			
Charges for services	\$ 616,047	\$ 493,298	\$ 1,109,345
Other	5,362	4,495	9,857
Total operating revenue	621,409	497,793	1,119,202
<u>Operating expenses:</u>			
Personal services	140,218	256,963	397,181
Operations and maintenance	154,625	46,882	201,507
Contractual services	41,663	50,667	92,330
Supplies and materials	19,334	5,118	24,452
Utilities	31,909	55,345	87,254
Depreciation	40,502	117,911	158,413
Other	6,094	7,385	13,479
Total operating expenses	434,345	540,271	974,616
Operating income (loss)	187,064	(42,478)	144,586
<u>Non-operating revenues (expenses):</u>			
Interest	251	-	251
Interest and fiscal charges	(54,522)	-	(54,522)
Total non-operating revenues (expenses)	(54,271)	-	(54,271)
Change in net position	132,793	(42,478)	90,315
Net position at beginning of year	2,700,433	4,584,262	7,284,695
Net position at end of year	\$ 2,833,226	\$ 4,541,784	\$ 7,375,010

See accompanying notes to the basic financial statements.

**Lakengren Water Authority**  
**Preble County, Ohio**  
Statement of Cash Flows  
For the Year Ended December 31, 2012

	Business-Type Activities - Enterprise Funds		
	Water	Sewer	Total
Cash flows from operating activities:			
Cash received from customers	\$ 643,159	\$ 510,154	\$ 1,153,313
Cash payments for employee services and benefits	(140,776)	(254,597)	(395,373)
Cash payments to suppliers for goods and services	(253,376)	(179,693)	(433,069)
Net cash provided by operating activities	<u>249,007</u>	<u>75,864</u>	<u>324,871</u>
Cash flows from capital and related financing activities:			
Interest paid on debt	(55,776)	-	(55,776)
Principal payment on bonds and loans	(147,811)	-	(147,811)
Sale of capital assets	500	-	500
Net cash used for capital and related financing activities	<u>(203,087)</u>	<u>-</u>	<u>(203,087)</u>
Cash flows from investing activities:			
Investment income	1,068	544	1,612
Sale of investments	158,065	107,438	265,503
Net cash provided by investing activities	<u>159,133</u>	<u>107,982</u>	<u>267,115</u>
Net increase in cash and cash equivalents	205,053	183,846	388,899
Cash and cash equivalents at beginning of year	555,227	176,731	731,958
Cash and cash equivalents at end of year	<u>\$ 760,280</u>	<u>\$ 360,577</u>	<u>\$ 1,120,857</u>
Reconciliation of operating income (loss) to net cash provided by operating activities:			
Operating income (loss)	\$ 187,064	\$ (42,478)	\$ 144,586
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:			
Depreciation	40,502	117,911	158,413
Change in assets and liabilities:			
(Increase) decrease in assets:			
Accounts receivable	21,750	12,361	34,111
Materials and supplies inventory	1,817	(5,851)	(4,034)
Prepaid items	171	(14,585)	(14,414)
Increase (decrease) in liabilities:			
Accounts payable	(1,951)	5,879	3,928
Accrued wages and benefits	1,004	1,048	2,052
Compensated absences	(2,624)	716	(1,908)
Due to other governments	1,274	863	2,137
Net cash provided by operating activities	<u>\$ 249,007</u>	<u>\$ 75,864</u>	<u>\$ 324,871</u>

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 the Year Ended December 31, 2012

**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).



**Lakengren Water Authority  
Preble County, Ohio**

Notes to the Basic Financial Statements  
For the Year Ended December 31, 2012

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

The financial statements of the 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 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 position, a statement of revenues, expenses and changes in net position and a statement of cash flows.

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

Enterprise fund reporting focuses on the determination of the change in net position, 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, all liabilities, deferred outflows of resources and deferred inflows of resources associated with the operation of the Water Authority are included on the statement of net position. The statement of revenues, expenses and changes in net position presents increases (i.e., revenues) and decreases (i.e., expenses) in total net position. 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 Year Ended December 31, 2012

**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 position as “restricted assets: cash with fiscal agent”.

The Water Authority has segregated bank accounts for monies held separate from the Water Authority’s central bank account. These interest-bearing deposit accounts are presented on the statement of net position as “cash and cash equivalents in segregated accounts”.

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.

**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 position 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.

**Lakengren Water Authority**  
**Preble County, Ohio**

Notes to the Basic Financial Statements  
For the Year Ended December 31, 2012

**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, 2012 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.

**I. Capital Assets**

Capital assets utilized by the Water Authority are reported on the statement of net position. 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;

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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.

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 Position**

Net position represents the difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources. Net investment in capital assets, consists of capital assets, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net position is 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 position are available. The water fund had restricted net position relative to those resources necessary to comply with covenants of bond financing agreements.

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**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 2012, 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 2012.

**NOTE 3 – NEW ACCOUNTING AND REPORTING STANDARDS**

For 2012, the Water Authority has implemented Governmental Accounting Standards Board Statement (GASBS) No. 63, “Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position”.

GASBS No. 63 established standards for the reporting of net position which was previously referred to as net position. The Water Authority’s implementation had no effect on the amount of beginning net position.

For 2012, the Water Authority has implemented Governmental Accounting Standards Board Statement (GASBS) No. 65, “Items Previously Reported as Assets and Liabilities”.

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GASBS No. 65 established standards that reclassify, as deferred outflows of resources and deferred inflows of resources, certain items that were previously reported as assets and liabilities. The Water Authority's implementation of GASBS No. 65 had no effect on the amount of beginning net position.

**NOTE 4 - DEPOSITS AND INVESTMENTS**

The investments and deposits 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.

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 \$1,120,857. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of December 31, 2012, none of the Water Authority's bank balance of \$1,127,660 was exposed to custodial credit risk as described below.

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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, 2012 were as follows:

	Balance				Balance	Amount
	<u>12/31/11</u>	<u>Increases</u>	<u>Decreases</u>		<u>12/31/12</u>	<u>Due in</u> <u>One Year</u>
<u>Bonds and loans</u>						
Series 2008 A untaxed revenue bonds, 4.02%	\$ 372,000	\$ -	\$ (62,000)		\$ 310,000	\$ 62,000
Series 2008 B taxed revenue bonds, 6.03%	78,000	-	(13,000)		65,000	13,000
OWDA loan, 2.75%	1,331,488	-	(72,811)		1,258,677	74,827
Total bonds and loans	<u>1,781,488</u>	<u>-</u>	<u>(147,811)</u>		<u>1,633,677</u>	<u>149,827</u>
<u>Other obligations</u>						
Compensated absences	35,977	21,745	(23,653)		34,069	15,207
Total long-term obligations	<u>\$ 1,817,465</u>	<u>\$ 21,745</u>	<u>\$ (171,464)</u>		<u>\$ 1,667,746</u>	<u>\$ 165,034</u>

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.

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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 \$19,658, respectively.

The Water Authority has an Ohio Water Development Authority (OWDA) Loan outstanding at December 31, 2012. The total amount of the loan issued was \$1,667,151 and bears an interest rate of 2.75% 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, 2012 are:

<u>Year</u>	<u>Revenue Bonds</u>			<u>OWDA loan</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	75,000	9,829	84,829	79,028	29,902	108,930
2016	75,000	6,553	81,553	81,216	27,713	108,929
2017	75,000	3,276	78,276	83,465	25,465	108,930
2018-2022	-	-	-	453,296	91,350	544,646
2023-2026	-	-	-	409,947	25,770	435,717
Total	<u>\$ 375,000</u>	<u>\$ 49,145</u>	<u>\$ 424,145</u>	<u>\$ 1,258,677</u>	<u>\$ 266,334</u>	<u>\$ 1,525,011</u>



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**NOTE 7 – CAPITAL ASSETS**

Capital asset activity during 2012 was as follows:

	<u>Balance</u> <u>12/31/2011</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>12/31/2012</u>
Capital assets, not being depreciated:				
Land	\$ 102,842	\$ -	\$ -	\$ 102,842
Infrastructure	4,889,399	-	-	4,889,399
Total capital assets, not being depreciated	<u>4,992,241</u>	<u>-</u>	<u>-</u>	<u>4,992,241</u>
Capital assets, being depreciated:				
Buildings	887,182	-	-	887,182
Vehicles	95,927	-	(5,000)	90,927
Equipment	175,834	-	-	175,834
Infrastructure	4,068,446	-	-	4,068,446
Total capital assets, being depreciated	<u>5,227,389</u>	<u>-</u>	<u>(5,000)</u>	<u>5,222,389</u>
Less accumulated depreciation:				
Buildings	(107,888)	(20,781)	-	(128,669)
Vehicles	(81,622)	(3,142)	4,500	(80,264)
Equipment	(165,942)	(2,862)	-	(168,804)
Infrastructure	(2,040,401)	(131,628)	-	(2,172,029)
Total accumulated depreciation	<u>(2,395,853)</u>	<u>(158,413)</u>	<u>4,500</u>	<u>(2,549,766)</u>
Total capital assets being depreciated, net	<u>2,831,536</u>	<u>(158,413)</u>	<u>(500)</u>	<u>2,672,623</u>
Business-type activities capital assets, net	<u>\$ 7,823,777</u>	<u>\$ (158,413)</u>	<u>\$ (500)</u>	<u>\$ 7,664,864</u>

**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 2012, the Water Authority contracted with independent third parties for various types of insurance as follows:

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<u>Coverage</u>	<u>Limit</u>	<u>Deductible</u>
Property	\$ 6,401,009	\$ 1,000
General liability:		
Per occasion	1,000,000	none
Aggregate	3,000,000	none
Public officials	1,000,000	none
Electronic data processing	250,000	500
Valuable papers	250,000	500
Crime:		
Employee dishonesty	100,000	500
Employee theft	25,000	500
Automobile:		
Liability	1,000,000	none
Comprehensive	50,000	250
Collision	50,000	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 employees have health insurance, dental and vision insurance, short term disability, and life insurance through independent third parties.

**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.

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**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.

Funding Policy - The Ohio Revised Code provides statutory authority for member and employer contributions. For 2012, member and contribution rates were consistent across all three plans. The 2012 member contribution rates were 10.00%. The Water Authority's contribution rate for 2012 was 14.00%.

The Water Authority's contribution rate for pension benefits for 2012 was 7.95%. The Water Authority's required contributions for pension obligations to the Traditional Pension and Combined Plans for the years ended December 31, 2012, 2011 and 2010 were \$26,967, \$30,212 and \$28,828, respectively; 81.88% has been contributed for 2012 and 100% has been contributed for 2011 and 2010.

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**NOTE 11 - POSTEMPLOYMENT 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.

OPERS' Post Employment Health Care plan was established under, and is administrated in accordance with, Internal Revenue Code 401(h). Each year, the OPERS Board of Trustees determines the portion of the employer contribution rate that will be set aside for funding of post employment health care benefits. The portion of employer contributions allocated to health care for members in the Traditional Plan was 4.0% during calendar year 2012. The portion of employer contributions allocated to health care for members in the Combined Plan was 6.05% during calendar year 2012. Effective January 1, 2013, the portion of employer contributions allocated to healthcare was lowered to 1 percent for both plans, as recommended by the OPERS Actuary. The OPERS Board of Trustees is also authorized to establish rules for the retiree, or their surviving beneficiaries, to pay a portion of the health care benefits provided. Payment amounts vary depending on the number of covered dependents and the coverage selected.

The Water Authority's contributions allocated to fund post-employment health care benefits for the years ended December 31, 2012, 2011 and 2010 were \$20,522, \$16,784 and \$16,016, respectively; 81.88% has been contributed for 2012 and 100% has been contributed for 2011 and 2010.

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Changes to the health care plan were adopted by the OPERS Board of Trustees on September 19, 2012, with a transition plan commencing January 1, 2014. With the recent passage of pension legislation under SB 343 and the approved health care changes, OPERS expects to be able to consistently allocate 4 percent of the employer contributions toward the health care fund after the end of the transition period.

**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, 2012 were \$687.54 per month. 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, 2012 are as follows:

<u>Year</u>	<u>Amount</u>	<u>Year</u>	<u>Amount</u>
2013	\$ 8,250	2048-2052	\$ 41,250
2014	8,250	2053-2057	41,250
2015	8,250	2058-2062	41,250
2016	8,250	2063-2067	41,250
2017	8,250	2068-2072	41,250
2018-2022	41,250	2073-2077	41,250
2023-2027	41,250	2078-2082	41,250
2028-2032	41,250	2083-2087	41,250
2033-2037	41,250	2088-2092	41,250
2038-2042	41,250	2093-2097	41,250
2043-2047	41,250	2098-2102	41,250
		2103-2107	41,250
		Total	<u>\$ 783,750</u>

## **REQUIRED SUPPLEMENTARY INFORMATION**

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Supplementary information  
Condition assessment of the infrastructure reported  
under the modified approach  
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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, 2012, 2011, 2010, 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**

*Garage/Office*

The garage and office space located is located between the water plant and the workshop. The Water Authority’s policy states that all buildings shall be maintained at level 2 or higher. The following is a summary of the conditional assessment for the garage/office.

Garage/office condition Level 2 - Good

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

Year Ended	Budgeted Expenses	Actual Expenses	Difference
12/31/2012	\$ -	\$ -	\$ -

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*Workshop*

The workshop is located in front of the water plant and garage. The Water Authority's policy states that all buildings shall be maintained at level 2 or higher. The following is a summary of the conditional assessment for the workshop:

Workshop condition Level 2 - Good

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

Year Ended	Budgeted Expenses	Actual Expenses	Difference
12/31/2012	\$ 1,500	\$ -	\$ 1,500

*Main Office*

The Water Authority's main office is located at 24 Lakengren Drive. The Water Authority's policy states that all buildings shall be maintained at level 2 or higher. The following is a summary of the conditional assessment for the main office:

Main Office condition Level 2 - Good

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

Year Ended	Budgeted Expenses	Actual Expenses	Difference
12/31/2012	\$ -	\$ -	\$ -

*Wells*

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

Well Condition	Number of Wells	Percent of Total
1 - Excellent	-	0.00%
2 - Good	7	100.00%
Total	7	100.00%

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



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Year Ended	Budgeted Expenses	Actual Expenses	Difference
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
12/31/2010	5,000	-	5,000
12/31/2011	22,000	21,685	315
12/31/2012	13,500	-	13,500

*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:

Year Ended	Budgeted Expenses	Actual Expenses	Difference
12/31/2006	\$ 4,581	\$ 2,330	\$ 2,251
12/31/2007	1,000	1,482	(482)
12/31/2008	500	-	500
12/31/2009	1,000	403	597
12/31/2010	1,000	82	918
12/31/2011	1,000	-	1,000
12/31/2012	8,000	-	8,000

*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:

Year Ended	Budgeted Expenses	Actual Expenses	Difference
12/31/2006	\$ 600	\$ 648	\$ (48)
12/31/2007	700	-	700
12/31/2008	700	26	674
12/31/2009	700	-	700
12/31/2010	500	-	500
12/31/2011	500	-	500
12/31/2012	6,500	-	6,500

*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:

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Year Ended	Budgeted Expenses	Actual Expenses	Difference
12/31/2006	\$ 150	\$ 164	\$ (14)
12/31/2007	500	-	500
12/31/2008	500	-	500
12/31/2009	500	-	500
12/31/2010	500	-	500
12/31/2011	500	-	500
12/31/2012	500	-	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.

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

Meter Condition	Number of Water Meters	Percent of Total
1 - Excellent	1,384	100.00%
2 - Good	-	0.00%
Total	<u>1,384</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
12/31/2010	93,000	92,119	881
12/31/2011	500	-	500
12/31/2012	500	-	500

*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:

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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)
12/31/2010	10,000	9,470	530
12/31/2011	10,000	9,578	422
12/31/2012	10,000	9,470	530

*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	5	2.79%
2 - Good	170	94.96%
3 - Fair	4	2.23%
Total	<u>179</u>	<u>100.00%</u>

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

Year Ended	Budgeted Expenses	Actual Expenses	Difference
12/31/2006	\$ 3,100	\$ 5,986	\$ (2,886)
12/31/2007	6,000	-	6,000
12/31/2008	1,000	-	1,000
12/31/2009	1,000	-	1,000
12/31/2010	500	-	500
12/31/2011	500	-	500
12/31/2012	500	-	500

*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:

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Year Ended	Budgeted Expenses	Actual Expenses	Difference
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
12/31/2010	1,000	-	1,000
12/31/2011	1,000	-	1,000
12/31/2012	1,000	-	1,000

**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:

Manholes Condition	Number of Manholes	Percent of Total
1 - Excellent	1	0.23%
2 - Good	426	95.95%
3 - Fair	17	3.83%
4 - Poor	-	0.00%
Total	<u>444</u>	<u>100.00%</u>

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

Year Ended	Budgeted Expenses	Actual Expenses	Difference
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	-	1,000
12/31/2010	2,000	-	2,000
12/31/2011	22,500	-	22,500
12/31/2012	22,000	21,677	323

*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:

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Year Ended	Budgeted Expenses	Actual Expenses	Difference
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)
12/31/2010	5,000	6,982	(1,982)
12/31/2011	10,000	2,638	7,362
12/31/2012	10,000	9,373	627

*Generators*

The Water Authority operates 5 back up generators. One is located at each lift station and one at the wastewater plant. The Water Authority's policy is to maintain the generators at a level two or higher.

Generator Condition	Number of Manholes	Percent of Total
1 - Excellent	5	100.00%
2 - Good	-	0.00%
3 - Fair	-	0.00%
4 - Poor	-	0.00%
Total	<u>5</u>	<u>100.00%</u>

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

Year Ended	Budgeted Expenses	Actual Expenses	Difference
12/31/2012	\$ 7,500	\$ -	\$ 7,500

*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:

Grinder Pump Condition	Number of Grinder Pumps	Percent of Total
2 - Good	115	84.56%
3 - Fair	21	15.44%
Total	<u>136</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 grinder pumps:

Year Ended	Budgeted Expenses	Actual Expenses	Difference
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
12/31/2010	25,000	27,454	(2,454)
12/31/2011	25,000	19,014	5,987
12/31/2012	26,000	-	26,000

*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:

Year Ended	Budgeted Expenses	Actual Expenses	Difference
12/31/2006	\$ 800	\$ -	\$ 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)
12/31/2010	8,500	51	8,449
12/31/2011	8,500	28	8,472
12/31/2012	-	-	-

*Aerators*

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

Year Ended	Budgeted Expenses	Actual Expenses	Difference
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	-	4,700
12/31/2010	5,000	1,343	3,657
12/31/2011	5,000	-	5,000
12/31/2012	1,000	-	1,000

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Preble County, Ohio**

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*Downdraft Mixer*

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

Year Ended	Budgeted Expenses	Actual Expenses	Difference
12/31/2006	\$ 400	\$ 311	\$ 89
12/31/2007	500	-	500
12/31/2008	500	-	500
12/31/2009	1,000	-	1,000
12/31/2010	1,000	-	1,000
12/31/2011	1,000	-	1,000
12/31/2012	1,000	-	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.

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

Year Ended	Budgeted Expenses	Actual Expenses	Difference
12/31/2006	\$ 1,000	-	\$ 1,000
12/31/2007	1,000	-	1,000
12/31/2008	1,000	-	1,000
12/31/2009	500	80	420
12/31/2010	1,000	-	1,000
12/31/2011	1,000	-	1,000
12/31/2012	1,000	-	1,000

*RBC Units*

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

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Preble County, Ohio**

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Year Ended	Budgeted Expenses	Actual Expenses	Difference
12/31/2006	\$ 800	\$ -	\$ 800
12/31/2007	1,000	1,539	(539)
12/31/2008	1,000	-	1,000
12/31/2009	500	9,052	(8,552)
12/31/2010	1,000	3,501	(2,501)
12/31/2011	2,000	-	2,000
12/31/2012	2,000	-	2,000

*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:

Year Ended	Budgeted Expenses	Actual Expenses	Difference
12/31/2006	\$ 800	\$ -	\$ 800
12/31/2007	800	558	242
12/31/2008	1,000	596	404
12/31/2009	1,000	-	1,000
12/31/2010	1,000	849	151
12/31/2011	500	-	500
12/31/2012	500	-	500

*Drying Beds*

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

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

Year Ended	Budgeted Expenses	Actual Expenses	Difference
12/31/2006	\$ 800	\$ -	\$ 800
12/31/2007	800	313	487
12/31/2008	1,000	1,404	(404)
12/31/2009	-	-	-
12/31/2010	-	173	(173)
12/31/2011	-	-	-
12/31/2012	500	385	115



**Lakengren Water Authority  
Preble County, Ohio**

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*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)
12/31/2010	14,000	9,038	4,962
12/31/2011	1,500	-	1,500
12/31/2012	1,500	-	1,500

*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	-	1,400
12/31/2009	1,400	-	1,400
12/31/2010	4,500	765	3,735
12/31/2011	1,500	-	1,500
12/31/2012	1,500	-	1,500

*Pole Barn*

The Water Authority has a pole barn that is rated at a level 2. The Water Authority's policy states that the pole barn 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 pole barn:

<u>Year Ended</u>	<u>Budgeted Expenses</u>	<u>Actual Expenses</u>	<u>Difference</u>
12/31/2012	\$ -	\$ -	\$ -

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Office phone - (216) 575-1630  
Fax - (216) 436-2411

***Charles E. Harris & Associates, Inc.***  
*Certified Public Accountants*

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INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING AND ON COMPLIANCE AND OTHER MATTERS REQUIRED BY  
GOVERNMENT AUDITING STANDARDS

Lakengren Water Authority  
Preble County  
24 Lakengren Drive  
Eaton, Ohio 45320

To the Board of Trustees:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the Lakengren Water Authority, Preble County, (the Water Authority) as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the Water Authority's basic financial statements and have issued our report thereon dated June 28, 2013, wherein we noted the Water Authority implemented GASB Statements No. 63 and 65.

***Internal Control Over Financial Reporting***

As part of our financial statement audit, we considered the Water Authority's internal control over financial reporting (internal control) to determine the audit procedures appropriate in the circumstances to the extent necessary to support our opinions on the financial statements, but not to the extent necessary to opine on the effectiveness of the Water Authority's internal control. Accordingly, we have not opined on it.

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 a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the Water Authority's financial statements. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.


Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all internal control deficiencies that might be material weaknesses or significant deficiencies. Given these limitations, we did not identify any deficiencies in internal control that we consider material weaknesses. However, unidentified material weaknesses may exist.

***Compliance and Other Matters***

As part of reasonably assuring whether the Water Authority's financial statements are free of material misstatement, 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, opining 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*.

***Purpose of this Report***

This report only describes the scope of our internal control and compliance testing and our testing results, and does not opine on the effectiveness of the Water Authority's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the Water Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



***Charles E. Harris and Associates, Inc.***  
June 28, 2013

**LAKENGREN WATER AUTHORITY  
PREBLE COUNTY, OHIO  
SCHEDULE OF PRIOR AUDIT FINDINGS  
For the Year Ended December 31, 2012**

The prior report, for the year ending December 31, 2011, reported no material citations or recommendations.



# Dave Yost • Auditor of State

**LAKENGREN WATER AUTHORITY**

**PREBLE COUNTY**

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
SEPTEMBER 24, 2013**