

Lake Waynoka Regional Water and Sewer District

Brown County

Regular Audit

January 1, 2006 through December 31, 2006

Fiscal Year Audited Under GAGAS: 2006

**BALESTRA, HARR & SCHERER CPAs, INC.**

528 South West Street, P.O. Box 687  
Piketon, Ohio 45661

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Mary Taylor, CPA  
Auditor of State

Board of Trustees  
Lake Waynoka Regional Water and Sewer District  
1 Waynoka Drive  
Sardinia, Ohio 45171

We have reviewed the *Independent Auditor's Report* of the Lake Waynoka Regional Water and Sewer District, Brown County, prepared by Balestra, Harr & Scherer, CPAs, Inc., for the audit period January 1, 2006 through December 31, 2006. 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 Lake Waynoka Regional Water and Sewer District is responsible for compliance with these laws and regulations.

*Mary Taylor*

Mary Taylor, CPA  
Auditor of State

May 22, 2007

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**Lake Waynoka Regional Water and Sewer District**  
*Table of Contents*  
*For the Year Ended December 31, 2006*

<u>TITLE</u>	<u>PAGE</u>
Independent Auditor's Report .....	1
Management's Discussion and Analysis .....	3
Basic Financial Statements:	
Government-Wide Financial Statements:	
Statement of Net Assets .....	8
Statement of Revenues, Expenses and Changes in Net Assets .....	9
Statement of Cash Flows .....	10
Notes to the Basic Financial Statements.....	11
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based On an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i> .....	18

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Member American Institute of Certified Public Accountants

Ohio Society of Certified Public Accountants

## **Independent Auditor's Report**

Board of Trustees  
Lake Waynoka Regional Water and Sewer District  
1 Waynoka Drive  
Sardinia, Ohio 45171

We have audited the accompanying financial statements of the business-type activities and each major fund of Lake Waynoka Regional Water and Sewer District (the District), Brown County, as of and for the year ended December 31, 2006, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

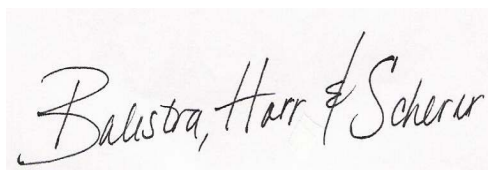
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities and each major fund of the District, as of December 31, 2006, and the respective changes in financial position and its cash flows, thereof for the 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 March 9, 2007, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Board of Trustees  
Lake Waynoka Regional Water and Sewer District  
Independent Auditor's Report

The Management's Discussion and Analysis on pages 3 through 7 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

As described in Note 8 to the basic financial statements, the District implemented Governmental Accounting Standards Board (GASB) Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, GASB Statement No. 46, *Net Assets Restricted by Enabling Legislation*, and GASB Statement No. 47, *Accounting for Termination Benefits*.

A handwritten signature in cursive script that reads "Balestra, Harr & Scherer". The signature is written in black ink on a light-colored background.

Balestra, Harr & Scherer, CPAs, Inc.  
March 9, 2006

**Lake Waynoka Regional Water and Sewer District  
Brown County**

*Management's Discussion and Analysis  
For the Year Ended December 31, 2006*

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This discussion and analysis, along with the accompanying financial reports, of Lake Waynoka Regional Water and Sewer District ("the District"), is designed to provide our customers, creditors and other interested parties with a general overview of the District and its financial activities.

**FINANCIAL HIGHLIGHTS**

The total assets of the District exceeded liabilities by \$2.98 million on December 31, 2006. The District's net assets increased by \$76 thousand (2.6%) in 2006.

The District's Operating Revenues increased by \$77 thousand (18.3%) and Operating Expenses decreased \$43 thousand (-6.4%) in 2006.

**OVERVIEW OF BASIC FINANCIAL STATEMENTS**

The District has only business-type activities. The District has two proprietary funds which are enterprise funds. Both the proprietary funds and business-type activities use the accrual basis of accounting which is similar to private sector business. The Basic Financial Statements are presented using the accrual basis of accounting.

The **Statement of Net Assets** includes all of the District's Assets and Liabilities. This statement provides information about the nature and amounts of investments in resources (assets) owned by the District, and obligations owed by the District (liabilities) on December 31. The District's net assets are the difference between assets and liabilities.

The **Statement of Revenues, Expenses and Changes in Net Assets** provides information on the District's operations over the past year and the success of recovering all its costs through user fees, charges, assessments, and other income. Revenues are reported when earned and expenses are reported when incurred.

The **Statement of Cash Flows** provides information about the District's cash receipts and cash disbursements. They summarize the net changes in cash resulting from operating, investing and financing activities.

The Statements described above show major funds in separate columns. The District's major funds are the Water Fund and the Sewer Fund. These are the District's only two funds.

**STATEMENT OF NET ASSETS**

Table 1 summarizes the Statement of Net Assets of the District. Capital Assets are reported less accumulated depreciation. "Invested in Capital Assets, Net of Related Debt", are Capital Assets, net of accumulated depreciation, less outstanding debt that was used to acquire those assets.



**Lake Waynoka Regional Water and Sewer District  
Brown County**

*Management's Discussion and Analysis  
For the Year Ended December 31, 2006*

Table 1

	2006	2005	Change	2004	Change
Current and Other Assets	\$ 986,283	\$ 848,245	\$ 138,038	\$ 778,346	\$ 69,899
Capital Assets	3,720,461	3,767,194	(46,733)	3,816,039	(48,845)
Total Assets	4,706,744	4,615,439	91,305	4,594,385	21,054
Long Term Liabilities	1,635,900	1,662,700	(26,800)	1,690,200	(27,500)
Current and Other Liabilities	89,086	47,171	41,915	35,057	12,114
Total Liabilities	1,724,986	1,709,871	15,115	1,725,257	(15,386)
Net Assets					
Invested in Capital Assets, Net of Related Debt	2,057,761	2,079,094	(21,333)	2,103,739	(24,645)
Restricted	104,721	100,000	4,721	100,000	-
Unrestricted	819,276	726,474	92,802	665,389	61,085
Total Net Assets	<u>\$ 2,981,758</u>	<u>\$ 2,905,568</u>	<u>\$ 76,190</u>	<u>\$ 2,869,128</u>	<u>\$ 36,440</u>

The District's Net Assets increased by \$76 thousand (2.6%) in 2006 and \$36 thousand (1.3%) in 2005. These increases are a result of excess revenues over expenses.

Restricted assets increased by \$4,721 in 2006 and remained the same in 2005. Restricted assets are cash that is limited in use as part of the District's bond covenants.

Unrestricted net assets increased by \$93 thousand (12.8%) in 2006 and \$61 thousand (9.2%) in 2005. Unrestricted net assets may be used without constraints established by bond covenants or other legal requirements. Cash and Cash Equivalents increased \$108 thousand in 2006 and \$109 thousand in 2005.

**Lake Waynoka Regional Water and Sewer District  
Brown County**

*Management's Discussion and Analysis  
For the Year Ended December 31, 2006*

**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS**

Table 2 below summarizes the changes in Revenues and Expenses and the resulting change in Net Assets.

Table 2

	2006	2005	Difference	2004	Difference
Operating Revenues	\$ 497,248	\$ 420,462	\$ 76,786	\$ 439,164	\$ (18,702)
Total Operating Revenues	497,248	420,462	76,786	439,164	(18,702)
Operating Expenses (Excluding Depreciation)	439,909	482,830	(42,921)	426,143	56,687
Depreciation Expense	186,724	186,659	65	189,278	(2,619)
Total Operating Expenses	626,633	669,489	(42,856)	615,421	54,068
Operating Loss	(129,385)	(249,027)	119,642	(176,257)	(72,770)
Non-Operating Revenues	291,662	372,815	(81,153)	346,183	26,632
Non-Operating Expenses	86,087	87,348	(1,261)	89,449	(2,101)
Changes in Net Assets	76,190	36,440	39,750	80,477	(44,037)
Net Assets at Beginning of Year	2,905,568	2,869,128	36,440	2,788,651	80,477
Net Assets at End of Year	<u>\$ 2,981,758</u>	<u>\$ 2,905,568</u>	<u>\$ 76,190</u>	<u>\$ 2,869,128</u>	<u>\$ 36,440</u>

Operating revenues increased by \$77 thousand (18.3%) in 2006. This increase is due to an increase in charges for services. The operating expenses (excluding depreciation) decreased by \$43 thousand primarily due to decreases in expenses for repairs and maintenance and professional services. The decrease in nonoperating revenues is due to lower special assessments revenue and connection fees being received in 2006. These decreases were partially offset by an increase in interest revenue.

Operating revenues decreased by \$19 thousand (-4.3%) in 2005. This decrease is due to a decrease in charges for services and miscellaneous revenue. The operating expenses (excluding depreciation) increased by \$57 thousand primarily due to increases in utilities, legal fees and increased costs in maintenance of the distribution and collection systems. The increase in nonoperating revenues is due to higher special assessments revenue and connection fees being received in 2005.

**Lake Waynoka Regional Water and Sewer District  
Brown County**

*Management's Discussion and Analysis  
For the Year Ended December 31, 2006*

**CAPITAL ASSETS**

The District had \$5.7 million invested in Capital Assets (before depreciation) at the end of 2006. This amount is an increase of \$140 thousand (2.5%) from the previous year. Most of the increase is due to the purchase of a backup generator and installation of grinder pumps at new customer locations to enable these customers to tie into the District's system.

Table 3 shows the District's 2006 capital assets as compared to 2005 and 2004:

Table 3

	2006	2005	Change Amount	2004	Change Amount
Land Easements	\$ 140,829	\$ 140,829	\$ -	\$ 140,829	\$ -
Water & Sewer Plant	5,002,905	4,927,882	75,023	4,808,650	119,232
Machinery & Equipment	513,377	448,409	64,968	429,827	18,582
Furniture & Fixtures	20,720	20,720	-	20,720	-
Totals Before Accumulated Depreciation	5,677,831	5,537,840	139,991	5,400,026	137,814
Accumulated Depreciation	(1,957,370)	(1,770,646)	(186,724)	(1,583,987)	(186,659)
Net Capital Assets	<u>\$ 3,720,461</u>	<u>\$3,767,194</u>	<u>\$ (46,733)</u>	<u>\$ 3,816,039</u>	<u>\$ (48,845)</u>

See note 7 to the basic financial statements for more information on the District's capital assets.

**DEBT**

The District issues long term debt to finance much of its construction. Water Revenue Bonds were used to finance most general improvement projects.

Table 4

	2006	2005	Change Amount	2004	Change Amount
Water Revenue Bonds	\$1,662,700	\$1,688,100	(\$25,400)	\$1,712,300	(\$24,200)
Less: Current Maturities	26,800	25,400	1,400	22,100	3,300
Net Total Long Term Debt	<u>\$1,635,900</u>	<u>\$1,662,700</u>	<u>(\$26,800)</u>	<u>\$1,690,200</u>	<u>(\$27,500)</u>

The majority of the District's debt is paid from revenues, excluding capital contributions. See note 4 to the basic financial statements for additional information on the District's debt.

**Lake Waynoka Regional Water and Sewer District  
Brown County**

*Management's Discussion and Analysis  
For the Year Ended December 31, 2006*

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**CASH**

Cash and Cash Equivalents were \$808 thousand on December 31, 2006 and \$695 thousand on December 31, 2005. \$105 thousand and \$100 thousand of these funds were restricted for specific use in 2006 and 2005, respectively. These restricted accounts are for Debt Reserves.

**CONTACT INFORMATION**

Questions regarding this report and requests for additional information should be forwarded to Timothy O'Farrell, General Manager, Lake Waynoka Regional Water and Sewer District, 1 Waynoka Drive, Sardinia, Ohio 45171 or (937) 446-3232.

**Lake Waynoka Regional Water and Sewer District  
Brown County**

*Statement of Net Assets  
As of December 31, 2006*

	<u>Water</u>	<u>Sewer</u>	<u>Total Business- Type Activities</u>
<i>Assets:</i>			
Current Assets:			
Cash and Cash Equivalents	\$ 185,911	\$ 517,206	\$ 703,117
Accounts Receivable (Net Allowance for Doubtful Accounts)	65,351	35,537	100,888
Inventory	-	75,886	75,886
Prepaid Expenses	542	542	1,084
Interest Receivable	-	587	587
Total Current Assets	<u>251,804</u>	<u>629,758</u>	<u>881,562</u>
Noncurrent Assets:			
Restricted Assets:			
Cash and Cash Equivalents Restricted for Debt Service	-	104,721	104,721
Capital Assets:			
Non-Depreciable Capital Assets	1,000	139,829	140,829
Depreciable Capital Assets Net of Accumulated Depreciation	<u>431,312</u>	<u>3,148,320</u>	<u>3,579,632</u>
Total Capital Assets	<u>432,312</u>	<u>3,288,149</u>	<u>3,720,461</u>
Total Assets	684,116	4,022,628	4,706,744
<i>Liabilities:</i>			
Current Liabilities:			
Accounts Payable	5,322	49,994	55,316
Accrued Interest	-	6,970	6,970
Construction Bonds Payable	-	26,800	26,800
Total Current Liabilities	<u>5,322</u>	<u>83,764</u>	<u>89,086</u>
Noncurrent Liabilities:			
Construction Bonds Payable	-	1,635,900	1,635,900
Total Noncurrent Liabilities	<u>-</u>	<u>1,635,900</u>	<u>1,635,900</u>
Total Liabilities	5,322	1,719,664	1,724,986
<i>Net Assets:</i>			
Invested in Capital Assets, Net of Related Debt	431,312	1,485,620	1,916,932
Restricted for Debt Service	-	104,721	104,721
Unrestricted	247,482	712,623	960,105
Total Net Assets	<u>\$ 678,794</u>	<u>\$ 2,302,964</u>	<u>\$ 2,981,758</u>

The notes to the basic financial statements are an integral part of these statements.

**Lake Waynoka Regional Water and Sewer District  
Brown County**

*Statement of Revenues, Expenses and Changes in Net Assets  
For the Year Ended December 31, 2006*

	<u>Water</u>	<u>Sewer</u>	<u>Total Business- Type Activities</u>
<i>Operating Revenues:</i>			
Charges for Services	\$ 273,298	\$ 222,489	\$ 495,787
Miscellaneous	<u>1,461</u>	<u>-</u>	<u>1,461</u>
Total Operating Revenues	274,759	222,489	497,248
<i>Operating Expenses:</i>			
Utilities	11,992	22,270	34,262
Professional Services	8,011	5,260	13,271
Depreciation	44,605	142,119	186,724
Materials and Supplies	24,590	5,164	29,754
Insurance	9,888	9,888	19,776
Repairs and Maintenance	25,537	32,128	57,665
Contracted Services	140,504	132,573	273,077
Solid Waste Disposal	-	9,510	9,510
Miscellaneous	<u>1,414</u>	<u>1,180</u>	<u>2,594</u>
Total Operating Expenses	<u>266,541</u>	<u>360,092</u>	<u>626,633</u>
Operating Income/(Loss)	<u>8,218</u>	<u>(137,603)</u>	<u>(129,385)</u>
<i>Nonoperating Revenues:</i>			
Interest Revenue	1,526	21,315	22,841
Special Assessments	-	115,121	115,121
Connection Fees	<u>30,750</u>	<u>122,950</u>	<u>153,700</u>
Total Nonoperating Revenues	32,276	259,386	291,662
<i>Nonoperating Expenses:</i>			
Interest Expense	<u>-</u>	<u>(86,087)</u>	<u>(86,087)</u>
Total Nonoperating Expenses	<u>-</u>	<u>(86,087)</u>	<u>(86,087)</u>
Changes in Net Assets	40,494	35,696	76,190
Net Assets, Beginning of Year	<u>638,300</u>	<u>2,267,268</u>	<u>2,905,568</u>
Net Assets, End of Year	<u><u>\$ 678,794</u></u>	<u><u>\$ 2,302,964</u></u>	<u><u>\$ 2,981,758</u></u>

The notes to the basic financial statements are an integral part of these statements.

**Lake Waynoka Regional Water and Sewer District  
Brown County**

*Statement of Cash Flows  
For the Year Ended December 31, 2006*

	<u>Water</u>	<u>Sewer</u>	<u>Total Business- Type Activities</u>
<i>Cash Flows from Operating Activities:</i>			
Cash received from customers	\$ 274,628	\$ 223,212	\$ 497,840
Cash received from others	1,461	-	1,461
Cash payments to suppliers for goods and services	<u>(221,902)</u>	<u>(205,512)</u>	<u>(427,414)</u>
Net cash provided by operating activities	54,187	17,700	71,887
<i>Cash Flows from Capital and Related Financing Activities:</i>			
Assessments	-	115,121	115,121
Connection fees	30,750	122,950	153,700
Revenue bond principal payments	-	(25,400)	(25,400)
Revenue bond interest payments	-	(86,195)	(86,195)
Capital outlay	<u>(19,114)</u>	<u>(120,877)</u>	<u>(139,991)</u>
Net cash provided by capital and related financing activities	11,636	5,599	17,235
<i>Cash Flows from Investing Activities:</i>			
Interest on cash and investments	<u>1,526</u>	<u>22,399</u>	<u>23,925</u>
Net increase in cash and cash equivalents	67,349	45,698	113,047
Cash and cash equivalents at beginning of year	<u>118,562</u>	<u>576,229</u>	<u>694,791</u>
Cash and cash equivalents at end of year	<u>\$ 185,911</u>	<u>\$ 621,927</u>	<u>\$ 807,838</u>
<i>Reconciliation of Operating Income/(Loss) to Net Cash Provided by Operating Activities:</i>			
Operating income/(loss)	\$ 8,218	\$ (137,603)	\$ (129,385)
<i>Adjustments to Reconcile Operating Income/(Loss) to Net Cash Provided by Operating Activities:</i>			
Depreciation	44,605	142,119	186,724
<i>Changes in Assets and Liabilities:</i>			
Decrease in accounts receivable	1,330	723	2,053
Decrease in prepaid insurance	129	129	258
Increase in inventory	-	(28,386)	(28,386)
(Decrease)/Increase in accounts payable (operating)	<u>(95)</u>	<u>40,718</u>	<u>40,623</u>
Total adjustments	<u>45,969</u>	<u>155,303</u>	<u>201,272</u>
Net cash provided by operating activities	<u>\$ 54,187</u>	<u>\$ 17,700</u>	<u>\$ 71,887</u>

The notes to the basic financial statements are an integral part of these statements.

**Lake Waynoka Regional Water and Sewer District  
Brown County**

*Notes to the Basic Financial Statements  
For the Year Ended December 31, 2006*

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. DESCRIPTION OF THE ENTITY**

Lake Waynoka Regional Water and Sewer District (the District), Brown County, Ohio, is a body corporate and politic established to exercise the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The District was organized under the provisions of Section 6119 of the Ohio Revised Code by the Common Pleas Court of Brown County in February 7, 1992. The District is directed by a publicly elected nine-member Board of Trustees who serve three-year terms and three members are elected each year. The District was established to provide an adequate and uncontaminated water supply for the consumption of the water, and sanitary sewer services to District residents of the Lake Waynoka subdivision of Sardinia, Ohio.

The District's management believes these financial statements present all activities for which the District is financially accountable.

**B. BASIS OF ACCOUNTING**

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made. The accounting policies of the District conform to accounting policies generally accepted in the United States of America.

For financial statement presentation purposes, the District utilizes the accrual basis of accounting. Under this method of accounting, revenues are recognized when they are earned. Expenses are recognized under the accrual basis of accounting when the liability is incurred. Unbilled water utility service receivables are recorded at year end.

The District operations are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with operations are included on the statement of net assets. Net assets are segregated based on restrictions imposed. The categories of net assets are invested in capital assets, net of related debt; restricted for debt services; and unrestricted. The statements of revenues, expenses and changes in net assets present increases (i.e., revenues) and decreases (i.e., expenses) in net total assets.

The District has adopted GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that use Proprietary Fund Accounting*. The District has elected to apply all applicable GASB pronouncements as well as Financial Accounting Standards Board pronouncements and Accounting Principles Board Opinions issued on or after November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

**C. CASH AND CASH EQUIVALENTS**

Deposits consist of demand deposits and restricted certificates of deposit which are valued at cost. The District maintains a cash deposits pool used by all funds. For purposes of the statement of cash flows, the District considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.



**Lake Waynoka Regional Water and Sewer District  
Brown County**

*Notes to the Basic Financial Statements  
For the Year Ended December 31, 2006*

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** – (Continued)

**D. FUND ACCOUNTING**

The District uses fund accounting to segregate cash that is restricted as to use. The District classifies its funds into the Enterprise Fund Type:

**Water Fund**

This fund receives charges for services from residents to cover the cost of providing this utility.

**Sewer Fund**

This fund receives charges for services from residents to cover the cost of providing this utility.

**E. BUDGETARY PROCESS**

Recent Ohio Attorney General Opinion No. 99-020 has clarified that the budget process described in Chapter 5705, Revised Code, applies to the District, regardless of whether the District levies property taxes. These documents are required to be prepared in accordance with the Ohio Revised Code, but are not required to be filed with the county auditor or county budget commission. The District must henceforth adopt annual appropriations, limited by estimated resources. Expenditures will be limited by appropriations.

The District's Board of Trustees did adopt an operating budget for 2006.

**F. CAPITAL ASSETS**

Capital assets acquired or constructed for the general use of the District in providing service are recorded at cost. Interest incurred during construction has been capitalized. Donated assets are recorded at their estimated fair market value at the time received. Prior to fiscal year 2003 all capital asset additions were capitalized. The District has established a capitalization threshold of \$1,000. Depreciation of capital assets of the District is calculated on the straight line method with the plant, tanks and lines being depreciated at a rate of 3% per year and other equipment and fixtures at a rate of 10% per year. Infrastructure assets are included in water and sewer plant and are depreciated at a rate of 3% per year. The depreciation methods are designed to amortize the costs of the assets over their estimated useful lives. Depreciation expense for 2006 was \$186,724.

**G. LONG-TERM OBLIGATIONS**

Long-term debts are reported as liabilities.

**H. ESTIMATES**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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.

**Lake Waynoka Regional Water and Sewer District  
Brown County**

*Notes to the Basic Financial Statements  
For the Year Ended December 31, 2006*

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** – (Continued)

**I. OPERATING CASH RECEIPTS AND CASH DISBURSEMENTS**

Operating cash receipts are those revenues that are generated directly from the primary activity of the proprietary fund. For the District, these cash receipts are charges for water and sewer services provided. Operating cash disbursements are necessary costs incurred to provide the goods and/or service that is the primary activity of the fund.

**J. NET ASSETS**

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consist 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 District or through external restrictions imposed by creditors, grantors or laws, or regulations of other governments. The District applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available. Of the District's restricted net assets of \$104,721, none was restricted by enabling legislation.

**K. RESTRICTED ASSETS**

Restricted assets represent cash required to be set aside by bond debt covenants for future debt service.

**L. ACCOUNTS RECEIVABLE**

Accounts receivable are presented net of allowance for doubtful accounts. The allowance for doubtful accounts was \$660,912 at December 31, 2006.

**M. PREPAID EXPENSES**

Payments made to vendors for services that will benefit periods beyond December 31, 2006 are recorded as prepaid items using the consumption method. A current asset of the prepaid amount is recorded at the time of purchase and as an expense in the year in which the services are consumed.

**N. INVENTORY OF MATERIALS AND SUPPLIES**

Inventories of materials and supplies are presented at the lower of cost or market on a first-in, first-out basis and are expensed when used.

**NOTE 2 - EQUITY IN POOLED CASH AND CASH EQUIVALENTS**

State statutes classify monies held by the District 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 District treasury, in commercial accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

**Lake Waynoka Regional Water and Sewer District  
Brown County**

*Notes to the Basic Financial Statements  
For the Year Ended December 31, 2006*

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**NOTE 2 - EQUITY IN POOLED CASH AND CASH EQUIVALENTS** – (Continued)

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

Interim deposits are deposits of interim monies. Interim monies are those monies, which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories.

Interim monies may be deposited or invested in the following securities:

1. United States treasury notes, bills, bonds, or any other obligation or security issued by the United States treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including, but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio, its political subdivisions, or other units or agencies of this State or its political subdivisions;
5. Time certificates of deposit or savings or deposit accounts, including, but not limited to, passbook accounts;
6. No-load money market mutual funds consisting exclusively of obligations described in items (1) and (2) of this footnote and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
7. The State Treasurer's investment pool (STAR Ohio);
8. Securities lending agreements in which the District lends securities and the eligible institution agrees to exchange either securities described in division (1) or (2), or cash, or both securities and cash, equal value for equal value;
9. High grade commercial paper in an amount not to exceed five percent of the District's total average portfolio;  
and
10. Bankers acceptances for a period not to exceed 270 days and in an amount not to exceed ten percent of the District's average portfolio.

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

**Lake Waynoka Regional Water and Sewer District  
Brown County**

*Notes to the Basic Financial Statements  
For the Year Ended December 31, 2006*

**NOTE 2 - EQUITY IN POOLED CASH AND CASH EQUIVALENTS** – (Continued)

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. Investments must mature within five years from the date of purchase unless matched to a specific obligation or debt of the District, and must be purchased with the expectation that it will be held to maturity.

Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the Treasurer or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

**Deposits:** Custodial credit risk is the risk that in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. All of the District's securities are either insured and registered in the name of the District or at least registered in the name of the District.

The bank balance of the District's deposits at December 31, 2006 was \$797,700. Of the bank balance at year end 2006, \$250,000 was covered by federal depository insurance. The remaining balance was covered by a 105% public depository pool, which was collateralized with securities held by the pledging financial institution trust department but not in the District's name. Although all State statutory requirements for the deposit of money had been followed, non-compliance with federal requirements could potentially subject the District to a successful claim by the FDIC.

**NOTE 3 - CONTRACT**

A contract was entered into on July 13, 1988 with the Waynoka Property Owners Association (WPOA) for WPOA to provide the District with administrative, maintenance, and management staff as well as office supplies, rental, and other fees associated with the maintenance and upkeep of the building housing the District. A contract is signed on a yearly basis between the District and WPOA. WPOA is responsible for all payroll and related deductions and matches. During 2006, the District paid \$279,647 to WPOA for the contract.

**NOTE 4 - LONG-TERM OBLIGATIONS**

Debt outstanding at December 31, 2006 was as follows:

	Balance 12/31/2005	Additions	Deletions	Balance 12/31/2006	Due in One Year
Water Revenue Bonds, Series A, 5.125%	\$1,223,400	\$ -	\$ 18,400	\$1,205,000	\$ 19,400
Water Revenue Bonds, Series B, 5.125%	194,600	-	2,900	191,700	3,100
Water Revenue Bonds, Series C, 5.125%	270,100	-	4,100	266,000	4,300
Totals	<u>\$1,688,100</u>	<u>\$ -</u>	<u>\$ 25,400</u>	<u>\$1,662,700</u>	<u>\$ 26,800</u>

The District issued water revenue bonds to finance the central sewage treatment facility. The bonds were issued on September 20, 1995 in the amount of \$1,874,700 (Series A - \$1,358,700; Series B - \$216,000; Series C - \$300,000) plus an annual interest rate of 5.125% and have maturities through June 1, 2035. The bonds are collateralized by the assessment revenues and future revenues from the District's water and sewer operations.

**Lake Waynoka Regional Water and Sewer District  
Brown County**

*Notes to the Basic Financial Statements  
For the Year Ended December 31, 2006*

**NOTE 4 - LONG-TERM OBLIGATIONS** – (Continued)

Amortization of the above debt is scheduled as follows:

Year Ending December 30,	Water Revenue Bonds		
	Principal	Interest	Total
2007	\$ 26,800	\$ 84,875	\$ 111,675
2008	28,100	83,484	111,584
2009	29,600	82,025	111,625
2010	31,100	80,488	111,588
2011	32,700	78,874	111,574
2012-2016	190,900	367,076	557,976
2017-2021	246,000	312,092	558,092
2022-2026	316,500	241,331	557,831
2027-2031	407,500	150,178	557,678
2032-2035	353,500	37,146	390,646
Total	<u>\$ 1,662,700</u>	<u>\$ 1,517,569</u>	<u>\$ 3,180,269</u>

**NOTE 5 - RISK MANAGEMENT**

The District is exposed to various risks of loss to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District has obtained commercial insurance for the following risks:

- Comprehensive Property and General Liability
- Commercial Auto
- Commercial Umbrella Liability
- Director and Officer Liability
- Contractors Equipment
- Boiler and Machinery
- Fidelity

The District had no significant reductions in insurance coverage from prior years. The District has not had any insurance settlement which has exceeded insurance coverage during the past three years.

**NOTE 6 - CONTINGENT LIABILITIES**

Various lawsuits have been filed against the District for their decision to install water meters and to charge various connection fees. There has been no decision rendered by the court on these cases. The District's management is of the opinion that ultimate disposition of these claims and legal proceedings will not have a material effect, if any, on the financial condition of the District.

**Lake Waynoka Regional Water and Sewer District  
Brown County**

*Notes to the Basic Financial Statements  
For the Year Ended December 31, 2006*

**NOTE 7 - CAPITAL ASSETS**

Capital assets activity for the fiscal year ended December 31, 2006 was as follows:

	Ending Balance 12/31/05	Additions	Deletions	Ending Balance 12/31/06
Capital Assets, Not Being Depreciated				
Land Easements	\$ 140,829	\$ -	\$ -	\$ 140,829
Capital Assets Being Depreciated				
Water and Sewer Plant	4,927,882	75,023	-	5,002,905
Furniture and Fixtures	20,720	-	-	20,720
Machinery and Equipment	448,409	64,968	-	513,377
Total Capital Assets, Being Depreciated	<u>5,397,011</u>	<u>139,991</u>	<u>-</u>	<u>5,537,002</u>
Less Accumulated Depreciation:				
Water and Sewer Plant	(1,434,042)	(152,975)	-	(1,587,017)
Furniture and Fixtures	(16,449)	(847)	-	(17,296)
Machinery and Equipment	(320,155)	(32,902)	-	(353,057)
Total Accumulated Depreciation	<u>(1,770,646)</u>	<u>(186,724)</u>	<u>-</u>	<u>(1,957,370)</u>
Total Capital Assets Being Depreciated, Net	<u>3,626,365</u>	<u>(46,733)</u>	<u>-</u>	<u>3,579,632</u>
Total Capital Assets, Net	<u>\$ 3,767,194</u>	<u>\$ (46,733)</u>	<u>\$ -</u>	<u>\$ 3,720,461</u>

**NOTE 8 – CHANGE IN ACCOUNTING PRINCIPLES**

For the fiscal year 2006, the District implemented GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, GASB Statement No. 46, *Net Assets Restricted by Enabling Legislation* and GASB Statement No. 47, *Accounting for Termination Benefits*. GASB Statement No. 42 establishes accounting and financial reporting standards for impairment of capital assets. GASB Statement No. 46 requires that limitations on the use of net assets imposed by enabling legislation be reported as restricted net assets. GASB Statement No. 47 establishes accounting standards for termination benefits. The application of these new standards had no effect on the financial statements, nor did their implementation require a restatement of prior year balances.

# BALESTRA, HARR & SCHERER CPAs, INC.

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Ohio Society of Certified Public Accountants

## **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  
Lake Waynoka Regional Water and Sewer District  
1 Waynoka Drive  
Sardinia, Ohio 45171

We have audited the accompanying financial statements of the business-type activities and each major fund of Lake Waynoka Regional Water and Sewer District (the District), Brown County, as of and for the year ended December 31, 2006, which collectively comprise the District's basic financial statements as listed in the table of contents, and have issued our report thereon dated March 9, 2007, in which we indicated the District implemented Governmental Accounting Standards Board Statements No. 42, 46, and 47. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

### **Internal Control Over Financial Reporting**

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be 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.

Board of Trustees  
Lake Waynoka Regional Water and Sewer District

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*  
Page 2

### **Compliance and Other Matters**

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

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



Balestra, Harr & Scherer, CPAs, Inc.  
March 9, 2007





**Mary Taylor, CPA**  
Auditor of State

**LAKE WAYNOKA REGIONAL WATER AND SEWER DISTRICT**  
**BROWN 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 5, 2007**