

Lake Waynoka Regional Water and Sewer District

Brown County

Regular Audit

January 1 , 2002 Through December 31, 2002

Fiscal Year Audited Under GAGAS: 2002

BALESTRA & COMPANY

(A Division of Harr & Scherer, CPAs, Inc.)

528 South West Street, P.O. Box 687

Piketon, Ohio 45661

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**Auditor of State
Betty Montgomery**

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 & Company, for the audit period January 1, 2002 to December 31, 2002. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

A handwritten signature in cursive script that reads "Betty Montgomery".

BETTY MONTGOMERY
Auditor of State

May 5, 2003

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LAKE WAYNOKA REGIONAL WATER AND SEWER DISTRICT
BROWN COUNTY

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Ohio Society of Certified Public Accountants

Board of Trustees

Lake Waynoka Regional Water District

1 Waynoka Drive

Sardinia, Ohio 45171

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying general purpose financial statements of the Lake Waynoka Regional Water and Sewer District (the District), Brown County, as of and for the year ended December 31, 2002. These general purpose financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

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

In our opinion, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the Lake Waynoka Regional Water and Sewer District, as of December 31, 2002, and the results of its operations and cash flows for the year 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 January 31, 2003 on our consideration of the District's internal control over financial reporting and our tests of compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Balestra & Company

Balestra & Company

(A Division of Harr & Scherer, CPAs, Inc.)

January 31, 2003

LAKE WAYNOKA REGIONAL WATER AND SEWER DISTRICT
BROWN COUNTY

BALANCE SHEET
AS OF DECEMBER 31, 2002

Assets:

Current Assets:

Cash and Cash Equivalents	\$ 348,833
Accounts Receivable (Net Allowance for Doubtful Accounts)	165,436
Inventory	14,033
Prepaid Expenses	1,438
Interest Receivable	<u>319</u>
Total Current Assets	530,059

Restricted Assets:

Cash and Cash Equivalents Restricted for Debt Service	100,000
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Fixed Assets net of Accumulated Depreciation	<u>3,744,033</u>
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Total Assets	<u><u>\$4,374,092</u></u>
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Liabilities and Fund Equity:

Current Liabilities:

Loans Payable - OWDA	\$ 18,119
Construction Bonds Payable	21,800
Accounts Payable	10,619
Accrued Interest	<u>7,591</u>
Total Current Liabilities	58,129

Noncurrent Liabilities:

Loans Payable	56,116
Construction Bonds Payable	<u>1,735,200</u>
Total Noncurrent Liabilities	<u>1,791,316</u>

Total Liabilities	1,849,445
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Fund Equity:

Contributed Capital - Grant Funds	1,310,000
Retained Earnings - Reserved	100,000
Retained Earnings - Unreserved	<u>1,114,647</u>
Total Fund Equity	<u>2,524,647</u>

Total Liabilities and Fund Equity	<u><u>\$4,374,092</u></u>
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The notes to the general purpose financial statements are an integral part of this statement.

LAKE WAYNOKA REGIONAL WATER AND SEWER DISTRICT
BROWN COUNTY

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN RETAINED EARNINGS
FOR THE YEAR ENDED DECEMBER 31, 2002

Operating Revenues:	
Charges for Services	\$ 393,275
Connection Fees	31,750
Miscellaneous	<u>8,978</u>
Total Operating Revenues	434,003
Operating Expenses:	
Utilities	26,752
Professional Services	23,557
Depreciation	179,236
Materials and Supplies	19,054
Insurance	17,102
Repairs and Improvements	21,918
Connection Expense	32,519
Contracted Services	208,027
Miscellaneous	<u>9,313</u>
Total Operating Expenses	<u>537,478</u>
Operating Loss	(103,475)
Nonoperating Revenues:	
Interest Revenue	9,245
Special Assessments	127,078
Connection Fees in Excess of Cost	<u>82,850</u>
Total Nonoperating Revenues	<u>219,173</u>
Nonoperating Expenses:	
Interest Expense	<u>97,970</u>
Total Nonoperating Expenses	<u>97,970</u>
Net Income	17,728
Retained Earnings, January 1, 2002	<u>2,506,919</u>
Retained Earnings, December 31, 2002	<u>\$2,524,647</u>

The notes to the general purpose financial statements are an integral part of this statement.

LAKE WAYNOKA REGIONAL WATER AND SEWER DISTRICT
BROWN COUNTY

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2002

Cash Flows from Operating Activities:

Operating Loss \$ (103,475)

Adjustments to Reconcile Operating Loss to Net Cash

Provided by Operating Activities:

Depreciation 179,236
Changes in Assets and Liabilities:
 Increase in Accounts Receivable (Net) (38,040)
 Increase in Prepaid Expenses (331)
 Decrease in Accounts Payable (1,265)
 Increase in Inventory (11,759)

Net Cash Provided by Operating Activities 24,366

Cash Flows from Capital Financing Activities:

Principal and Interest - Revenue Bonds (111,546)
Principal and Interest - Tractor (10,640)
Principal and Interest - OWDA (38,614)
Purchase of Machinery and Equipment (26,889)
Connection Fees in Excess of Cost 82,850
Special Assessments 127,078

Net Cash Provided by Capital Financing Activities 22,239

Cash Flows from Investing Activities:

Interest 11,688

Net Cash Provided by Investing Activities 11,688

Net Increase in Cash and Cash Equivalents 58,293

Cash and Cash Equivalents, January 1, 2002 390,540

Cash and Cash Equivalents, December 31, 2002 \$ 448,833

The notes to the general purpose financial statements are an integral part of this statement.

LAKE WAYNOKA REGIONAL WATER AND SEWER DISTRICT
BROWN COUNTY

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 2002

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. DESCRIPTION OF THE ENTITY

The Lake Waynoka Regional Water and Sewer District, Brown County, Ohio (the District), 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 serves 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 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 the operation are included on the balance sheet. Equity (i.e., net total assets) is segregated into contributed capital and retained earnings components. The operating statements 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 before 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.

LAKE WAYNOKA REGIONAL WATER AND SEWER DISTRICT
BROWN COUNTY

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 2002
(Continued)

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.

Budgeted vs. Actual Receipts	<u>2002</u>
Budgeted Receipts	\$ 687,739
Actual Receipts	<u>653,176</u>
Variance	<u>\$ (34,563)</u>
Budgeted vs. Actual Disbursements	
Budgeted Expenditures	\$ 669,546
Actual Expenditures	<u>635,448</u>
Variance	<u>\$ 34,098</u>

The District's Board of Trustees adopted an operating budget for 2002 and 2003.

F. PROPERTY, PLANT AND EQUIPMENT

Fixed 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. Depreciation of fixed 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 depreciated methods are designed to amortize the costs of the assets over their estimated useful lives. Depreciation expense for 2002 was \$179,236.

LAKE WAYNOKA REGIONAL WATER AND SEWER DISTRICT
BROWN COUNTY

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 2002
(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G. LONG-TERM OBLIGATIONS

Long-term debts are reported as liabilities.

H. CONTRIBUTED CAPITAL

Contributed capital represents resources provided by other governments and private sources that are not subject to repayment. These assets are recorded at their fair market value on the date contributed.

I. 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.

J. RETAINED EARNINGS-RESERVED

Reserves represent those portions of retained earnings legally segregated for a specific future use.

J. RESTRICTED ASSETS

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

K. ACCOUNTS RECEIVABLE

Accounts receivable are presented net of allowance for doubtful accounts. The allowance for doubtful accounts is \$248,964.

NOTE 2 - EQUITY IN POOLED CASH AND CASH EQUIVALENTS

The District maintains a cash deposits pool used by all funds. The carrying amount of cash at December 31 was as follows:

	<u>2002</u>
Demand deposits	\$ 348,833
Certificate of deposit	<u>100,000</u>
Variance	<u>\$ 448,833</u>

Deposits: The District is required to categorize deposits and investments according to GASB Statement No. 3 "Deposits with Financial Institutions, Investments, and Reverse Repurchase Agreements". At year-end, the carrying amount of the District's deposits was \$448,833. The bank balance of the District's deposit was \$440,396. Of the bank balance, \$204,769 was covered by federal depository insurance and \$235,627 was covered by collateral held by the pledging bank's trust department but not in the District's name pursuant to Section 135.181, Ohio Revised Code, in collateral pools securing all public funds on deposit with specific depository institutions. Ohio Revised Code Section 135.181 Uniform Depository Act, authorizes pledging of pooled securities in lieu of pledging specific securities.

LAKE WAYNOKA REGIONAL WATER AND SEWER DISTRICT
BROWN COUNTY

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 2002
(Continued)

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

Specifically, a designated public depository may pledge a single pool of eligible securities to secure payment of all public monies deposited in the financial institution, provided that at all times the total value of the securities so pledged is at least equal to 110% of the total amount of all public deposits secured by the pool, including the portion of such deposits covered by any federal deposit insurance. Although the pledging bank has an investment and securities pool used to collateralize all public deposits, which are held in the financial institution's name, noncompliance with federal requirements could potentially subject the District to a successful claim by the FDIC. The deposits not covered by federal depository insurance are considered uninsured and uncollateralized under the provisions of Statement No. 3.

NOTE 3 - CONTRACT

A contract was entered into on July 13, 1988 with the Waynoka Property Owners Association (WPOA) for the 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. The District paid \$202,094 to the WPOA during 2002 for the contract.

NOTE 4 - LONG-TERM OBLIGATIONS

Debt outstanding at December 31, 2001 was as follows:

	<u>Principal</u>	<u>Interest Rate</u>
Water Revenue Bonds, Series A	\$1,273,300	5.125%
Water Revenue Bonds, Series B	202,500	5.125%
Water Revenue Bonds, Series C	281,200	5.125%
Ohio Water Development Authority (OWDA)	<u>74,235</u>	3.200%
	<u>\$1,831,235</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 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.

On December 10, 1999 the District obtained a loan from the Ohio Department of Development for the purchase and installation of water meters. The loan was in the amount of \$178,634 and for a term of five years with semi-annual payments of \$19,307 at an annual interest rate of 5.32%.

LAKE WAYNOKA REGIONAL WATER AND SEWER DISTRICT
BROWN COUNTY

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 2002
(Continued)

NOTE 4 - LONG-TERM OBLIGATIONS (Continued)

Amortization of the above debt, including interest in the amount of \$1,872,618 is scheduled as follows:

Year Ending <u>December 30</u>	OWDA Water	
	Water Revenues <u>Bonds</u>	Supply <u>Revolving Loan</u>
2003	\$ 111,572	\$ 19,307
2004	111,539	38,614
2005	111,650	19,307
2006	111,595	0
2007	111,675	0
Subsequent	<u>3,068,594</u>	<u>0</u>
	<u>\$ 3,626,625</u>	<u>\$ 77,228</u>

NOTE 5 - RISK MANAGEMENT

The District has obtained commercial insurance for the following risks:

- C Comprehensive property and general liability
- C Commercial Auto
- C Commercial Umbrella Liability
- C Director and Officer Liability
- C Contractors Equipment
- C Boiler and Machinery
- C Fidelity

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.

NOTE 7 - FIXED ASSETS

A summary of the District's fixed assets as of December 31, 200, are as follows:

Land	\$ 140,829
Water and Sewer Plant	4,383,378
Furniture and Fixtures	15,015
Machinery and Equipment	<u>416,710</u>
Total Fixed Assets	4,955,932
Less Accumulated Depreciation	<u>(1,211,899)</u>
Total Net Fixed Assets	<u>\$ 3,744,033</u>

LAKE WAYNOKA REGIONAL WATER AND SEWER DISTRICT
BROWN COUNTY

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 2002
(Continued)

NOTE 8 - ENTERPRISE FUND INFORMATION

The District maintains two Enterprise funds which provide water distribution, sanitary sewer, and waste water treatment services. Segment information for the year ended December 31, 2002 follows:

Segment Information	Water	Sewer	Total
Operating Revenues	\$257,384	\$ 176,619	\$ 434,003
Operating Expenses Before Depreciation	164,685	193,557	358,242
Depreciation	40,708	138,528	179,236
Operating Loss	51,991	(155,466)	(103,475)
Net Income (Loss)	45,062	(27,334)	17,728
Property, Plant and Equipment Additions	12,097	14,792	26,889
Net Working Capital	103,977	367,953	471,930
Total Assets	661,079	3,713,013	4,374,092
Long Term Debt Payable (Net of Current Portion)	56,116	1,735,200	1,791,316
Total Fund Equity	568,922	1,955,725	2,524,647

NOTE 9 - CONTRIBUTED CAPITAL

During the year ended December 31, 1997, the District received capital from two (2) grants.

To assist the District in its construction of the wastewater treatment plant and the installation of sewer lines and pipes, the United States Department of Agriculture -Farmers Home Administration issued two grants of \$1,000,000 and \$250,000. Total amounts received under the two (2) Farmers Home Administration grants is \$1,250,000.

The District also received a grant totaling \$60,000 from the Ohio Public Works Commission during the fiscal year ended February 29, 1996.

The contributed capital on the balance sheet is the total of the Farmers Home Administration grant of \$1,250,000 plus the \$60,000 from the Ohio Public Works Commission which totals \$1,310,000.

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REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING 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 general purpose financial statements of the Lake Waynoka Regional Water and Sewer District (the District), Brown County, as of and for the year ended December 31, 2002, and have issued our report thereon dated January 31, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

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

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the general purpose financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the general purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving internal control over financial reporting, which we have reported to the management in a separate letter dated January 31, 2003.

Board of Trustees

Lake Waynoka Regional Water and Sewer District

Sardinia, Ohio 45171

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

Page 2

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

Balestra & Company

Balestra & Company

(A Division of Harr & Scherer, CPAs, Inc.)

January 31, 2003

SCHEDULE OF FINDINGS

**LAKE WAYNOKA REGIONAL WATER & SEWER DISTRICT
BROWN COUNTY
DECEMBER 31, 2002**

**2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS
REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS**

Finding Number	None
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SCHEDULE OF PRIOR AUDIT FINDINGS AND QUESTIONED COSTS

**LAKE WAYNOKA REGIONAL WATER & SEWER DISTRICT
BROWN COUNTY
DECEMBER 31, 2002**

Finding Number	Finding Summary	Fully Corrected	Not Corrected; Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain:</i>
2001-60408-001	ORC, Section 5705.41(D)	Yes	Original finding initiated in 2000.
2001-60408-002	ORC, Section 5705.41(B)	No	Original finding initiated in 2001.



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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
MAY 20, 2003**