

Lake Waynoka Regional Water and Sewer District

Brown County

Regular Audit

January 1, 2005 through December 31, 2005

Fiscal Year Audited Under GAGAS: 2005

BALESTRA, 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, Harr & Scherer, CPAs, Inc. for the audit period January 1, 2005 through December 31, 2005. 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 4, 2006

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Lake Waynoka Regional Water and Sewer District
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For the Year Ended December 31, 2005

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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, 2005, 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.

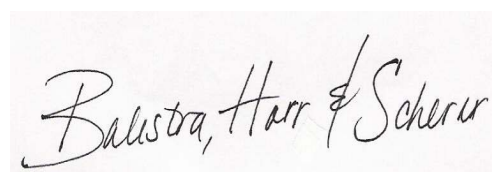
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities and each major fund of the District, as of December 31, 2005, and the respective changes in financial position and its cash flows, thereof for the 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 30, 2006, 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. 40, *Deposit and Investment Risk Disclosures* and GASB Statement No. 46, *Net Assets Restricted by Enabling Legislation*.

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 30, 2006

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

*Management's Discussion and Analysis
For the Year Ended December 31, 2005*

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 \$2.9 million on December 31, 2005. The District's net assets increased by \$36 thousand (1.3%) in 2005.

The District's Operating Revenues decreased by \$19 thousand (-4.3%) and Total Operating Expenses increased \$54 thousand (8.9%) in 2005.

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 **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 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, 2005*

Table 1

	2005	2004	Change
Current and Other Assets	\$848,245	\$778,346	\$69,899
Capital Assets	3,767,194	3,816,039	(48,845)
Total Assets	4,615,439	4,594,385	21,054
Long Term Liabilities	1,662,700	1,690,200	(27,500)
Other Liabilities	47,171	35,057	12,114
Total Liabilities	1,709,871	1,725,257	(15,386)
Net Assets			
Invested in Capital Assets, Net of Related Debt	2,079,094	2,103,739	(24,645)
Restricted	100,000	100,000	0
Unrestricted	726,474	665,389	61,085
Total Net Assets	<u>\$2,905,568</u>	<u>\$2,869,128</u>	<u>\$36,440</u>

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

Restricted assets remained unchanged from 2004. Restricted assets is cash that is limited in use as part of the District's Bond covenants.

Unrestricted net assets increased by \$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 \$109 thousand in 2005.

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

*Management's Discussion and Analysis
For the Year Ended December 31, 2005*

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			
	2005	2004	Difference
Operating Revenues	\$420,462	\$439,164	(\$18,702)
Total Operating Revenues	420,462	439,164	(18,702)
Operating Expenses (Excluding Depreciation)	482,830	426,143	56,687
Depreciation Expense	186,659	189,278	(2,619)
Total Operating Expenses	669,489	615,421	54,068
Operating Loss	(249,027)	(176,257)	(72,770)
Non-Operating Revenues	372,815	346,183	26,632
Non-Operating Expenses	87,348	89,449	(2,101)
Changes in Net Assets	36,440	80,477	(44,037)
Net Assets at Beginning of Year	2,869,128	2,788,651	80,477
Net Assets at End of Year	\$2,905,568	\$2,869,128	\$36,440

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, 2005*

CAPITAL ASSETS

The District had \$5.5 million invested in Capital Assets (before depreciation) at the end of 2005. This amount is an increase of \$138 thousand (2.6%) from the previous year. Most of the increase is due to the installation of grinder pumps at new customer locations to enable these customers to tie into the District's system.

Table 3

	2005	2004	Change Amount
Land Easements	\$140,829	\$140,829	\$0
Water & Sewer Plant	4,927,882	4,808,650	119,232
Machinery & Equipment	448,409	429,827	18,582
Furniture & Fixtures	20,720	20,720	0
Totals Before Accumulated Depreciation	5,537,840	5,400,026	137,814
Accumulated Depreciation	(1,770,646)	(1,583,987)	(186,659)
Net Capital Assets	<u>\$3,767,194</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

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

The majority of the District's debt is paid from assessment and operating 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, 2005*

CASH

Cash and Cash Equivalents were \$695 thousand on December 31, 2005. \$100 thousand of these funds are restricted for specific use. 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, 2005**

	Water	Sewer	Total Business- Type Activities
<i>Assets:</i>			
Current Assets:			
Cash and Cash Equivalents	\$ 118,562	\$ 476,229	\$ 594,791
Accounts Receivable (Net Allowance for Doubtful Accounts)	66,681	36,260	102,941
Interest Receivable	-	1,671	1,671
Inventories	-	47,500	47,500
Prepaid Expenses	671	671	1,342
Total Current Assets	185,914	562,331	748,245
Noncurrent Assets:			
Restricted Assets:			
Cash and Cash Equivalents Restricted for Debt Service	-	100,000	100,000
Nondepreciable Capital Assets	1,000	139,829	140,829
Depreciable Capital Assets, Net of Accumulated Depreciation	456,803	3,169,562	3,626,365
Total Noncurrent Assets	457,803	3,409,391	3,867,194
Total Assets	643,717	3,971,722	4,615,439
<i>Liabilities:</i>			
Current Liabilities:			
Accounts Payable	5,417	9,276	14,693
Accrued Interest Payable	-	7,078	7,078
Construction Bonds Payable	-	25,400	25,400
Total Current Liabilities	5,417	41,754	47,171
Noncurrent Liabilities:			
Construction Bonds Payable	-	1,662,700	1,662,700
Total Noncurrent Liabilities	-	1,662,700	1,662,700
Total Liabilities	5,417	1,704,454	1,709,871
<i>Net Assets:</i>			
Invested in Capital Assets, Net of Related Debt	457,803	1,621,291	2,079,094
Restricted for Debt Service	-	100,000	100,000
Unrestricted	180,497	545,977	726,474
Total Net Assets	\$ 638,300	\$ 2,267,268	\$ 2,905,568

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, 2005**

	<u>Water</u>	<u>Sewer</u>	<u>Total Business- Type Activities</u>
<i>Operating Revenues:</i>			
Charges for Services	\$ 221,740	\$ 197,145	\$ 418,885
Miscellaneous	957	620	1,577
Total Operating Revenues	<u>222,697</u>	<u>197,765</u>	<u>420,462</u>
<i>Operating Expenses:</i>			
Professional Services	18,778	5,209	23,987
Contractual Services	136,364	129,647	266,011
Utilities	10,352	20,167	30,519
Repairs and Maintenance	55,610	53,475	109,085
Materials and Supplies	25,370	5,543	30,913
Insurance	10,628	10,628	21,256
Depreciation	42,412	144,247	186,659
Miscellaneous	730	329	1,059
Total Operating Expenses	<u>300,244</u>	<u>369,245</u>	<u>669,489</u>
Operating Loss	<u>(77,547)</u>	<u>(171,480)</u>	<u>(249,027)</u>
<i>Nonoperating Revenues:</i>			
Interest and Investment Revenue	250	7,323	7,573
Connection Fees	61,000	187,650	248,650
Special Assessments	-	116,592	116,592
Total Nonoperating Revenues	<u>61,250</u>	<u>311,565</u>	<u>372,815</u>
<i>Nonoperating Expenses:</i>			
Interest Expense	-	(87,348)	(87,348)
Total Nonoperating Expenses	<u>-</u>	<u>(87,348)</u>	<u>(87,348)</u>
Change in Net Assets	(16,297)	52,737	36,440
Net Assets, Beginning of Year	654,597	2,214,531	2,869,128
Net Assets, End of Year	<u>\$ 638,300</u>	<u>\$ 2,267,268</u>	<u>\$ 2,905,568</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, 2005**

	Water	Sewer	Total Business Type Activities
<i>Cash Flows from Operating Activities:</i>			
Cash received from customers	\$269,330	\$223,024	\$492,354
Cash received from others	957	620	1,577
Cash payments to suppliers for goods and services	(254,257)	(253,162)	(507,419)
Net cash provided/(used) by operating activities	16,030	(29,518)	(13,488)
 <i>Cash Flows from Capital and Related Financing Activities:</i>			
Assessments	0	116,592	116,592
Connection fees	61,000	187,650	248,650
Revenue bond principal payments	0	(24,200)	(24,200)
Revenue bond interest payments	0	(87,451)	(87,451)
Capital outlay	(24,967)	(112,848)	(137,815)
Net cash provided (used) by capital and related financing activities	36,033	79,743	115,776
 <i>Cash Flows from Investing Activities:</i>			
Interest on cash and investments	250	6,417	6,667
Net increase in cash and cash equivalents	52,313	56,642	108,955
Cash and cash equivalents at beginning of year	66,249	519,587	585,836
Cash and cash equivalents at end of year	\$118,562	\$576,229	\$694,791
 <i>Reconciliation of Operating Loss to Net Cash Provided/(Used) by Operating Activities:</i>			
Operating loss	(\$77,547)	(\$171,480)	(\$249,027)
 <i>Adjustments to Reconcile Operating Loss to Net Cash Provided/(Used) by Operating Activities:</i>			
Depreciation	42,412	144,247	186,659
 <i>Changes in Assets and Liabilities:</i>			
Decrease in accounts receivable	47,590	25,879	73,469
(Increase) in prepaid insurance	(71)	(71)	(142)
(Increase) in inventory	0	(33,364)	(33,364)
Increase in accounts payable (operating)	3,646	5,271	8,917
Total adjustments	93,577	141,962	235,539
Net cash provided by operating activities	\$16,030	(\$29,518)	(\$13,488)

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, 2005*

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. DESCRIPTION OF THE ENTITY

The 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 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 statements 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.

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

*Notes to the Basic Financial Statements
For the Year Ended December 31, 2005*

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 2005.

F. CAPITAL ASSETS

Capital assets acquired or constructed for the general use of the District in providing service are recorded at cost. The District has established a capitalization threshold of \$1,000. Interest incurred during construction has been capitalized. Donated assets are recorded at their estimated fair market value at the time received. 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 2005 was \$186,659.

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, 2005*

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

I. 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. Net assets restricted for debt service are restricted as part of the bond indenture for debt service. The District applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

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 was \$674,367 at December 31, 2005.

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.

Inactive deposits are public deposits that the Board of Trustees has identified as not required for use within the current two-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;

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

*Notes to the Basic Financial Statements
For the Year Ended December 31, 2005*

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

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;
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.

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 a bank failure, the government's deposits may not be returned to it. The District's policy for deposits is any balance not covered by depository insurance will be collateralized by the financial institutions with pledged securities. 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 2005, the carrying amount of the District's deposits was \$694,791. The bank balance of the District's deposits at December 31, 2005 was \$691,265. Of the bank balance at year end 2005, \$250,000 was covered by federal depository insurance and \$441,265 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.

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

*Notes to the Basic Financial Statements
For the Year Ended December 31, 2005*

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

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 and subject to custodial credit risk.

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. During 2005, the District paid \$266,011 to the WPOA for the contract.

NOTE 4 - LONG-TERM OBLIGATIONS

Debt outstanding at December 31, 2005 was as follows:

	<u>Balance</u> <u>12/31/2004</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>12/31/2005</u>	<u>Due in</u> <u>One Year</u>
Water Revenue Bonds, Series A, 5.125%	\$1,240,900	\$ -	\$ 17,500	\$1,223,400	\$ 18,400
Water Revenue Bonds, Series B, 5.125%	197,400	-	2,800	194,600	2,900
Water Revenue Bonds, Series C, 5.125%	274,000	-	3,900	270,100	4,100
Totals	<u>\$1,712,300</u>	<u>\$ -</u>	<u>\$ 24,200</u>	<u>\$1,688,100</u>	<u>\$ 25,400</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, 2005*

NOTE 4 - LONG-TERM OBLIGATIONS – (Continued)

Amortization of the above debt, including interest in the amount of \$1,603,764 is scheduled as follows:

Year Ending December 30,	Water Revenue Bonds		
	Principal	Interest	Total
2006	\$ 25,400	\$ 86,195	\$ 111,595
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
2011-2015	181,400	376,490	557,890
2016-2020	233,900	324,233	558,133
2021-2025	300,900	256,950	557,850
2026-2030	387,500	170,291	557,791
2030-2035	443,400	58,733	502,133
Total	<u>\$ 1,688,100</u>	<u>\$ 1,603,764</u>	<u>\$ 3,291,864</u>

NOTE 5 - RISK MANAGEMENT

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 the prior year. The District has not had any insurance settlements which 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. 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, 2005*

NOTE 7 - CAPITAL ASSETS

Capital assets activity for the year ended December 31, 2005 was as follows:

	Ending Balance 12/31/04	Additions	Deletions	Ending Balance 12/31/05
Capital Assets, Not Being Depreciated				
Land Easements	\$140,829	\$0	\$0	\$140,829
Capital Assets Being Depreciated				
Water and Sewer Plant	4,808,650	119,232	0	4,927,882
Furniture and Fixtures	20,720	0	0	20,720
Machinery and Equipment	429,827	18,582	0	448,409
Total Capital Assets, Being Depreciated	5,259,197	137,814	0	5,397,011
Less Accumulated Depreciation:				
Water and Sewer Plant	(1,283,691)	(150,351)	0	(1,434,042)
Furniture and Fixtures	(15,559)	(890)	0	(16,449)
Machinery and Equipment	(284,737)	(35,418)	0	(320,155)
Total Accumulated Depreciation	(1,583,987)	(186,659)	0	(1,770,646)
Total Capital Assets Being Depreciated, Net	3,675,210	(48,845)	0	3,626,365
Total Capital Assets, Net	\$3,816,039	(\$48,845)	\$0	\$3,767,194

NOTE 8 – CHANGE IN ACCOUNTING PRINCIPLES

For the year 2005, the District has implemented GASB Statement No. 40, *Deposit and Investment Risk Disclosures*, and GASB Statement No. 46, *Net Assets Restricted by Enabling Legislation*.

GASB Statement No. 40 addresses common deposit and investment risks related to credit risk, concentration of credit risk, interest rate risk and foreign currency risk. The implementation of this statement had no effect on the District's financial statements for 2005.

GASB Statement No. 46 clarifies how legal enforceability should be applied for determining restricted net assets. The implementation of this new statement had no effect on the District's financial statements for fiscal year 2005.

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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, 2005, which collectively comprise the District's basic financial statements as listed in the table of contents, and have issued our report thereon dated March 30, 2006, in which we indicated the District implemented Governmental Accounting Standards Board Statements No. 40 and 46. 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 in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide an opinion 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 reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

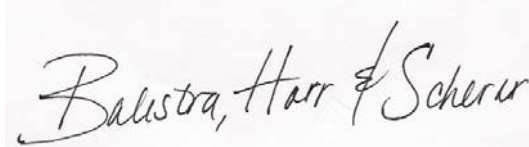
As part of obtaining reasonable assurance about whether the District's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulation, contracts, and grant agreements, noncompliance with which could have a direct and material 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 material instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

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

A handwritten signature in black ink that reads "Balestra, Harr & Scherer". The signature is written in a cursive style and is centered within a light-colored rectangular box.

Balestra, Harr & Scherer, CPAs, Inc.

March 30, 2006



**Auditor of State
Betty Montgomery**

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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 18, 2006**