

Lake Waynoka Regional Water and Sewer District

Brown County

Regular Audit

January 1, 2007 through December 31, 2007

Fiscal Year Audited Under GAGAS: 2007

**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  
Sardina, Ohio 45171

We have reviewed the *Independent Auditor's Report* of Lake Waynoka Regional Water and Sewer District, Brown County, prepared by Balestra, Harr & Scherer, CPAs, Inc., for the audit period January 1, 2007 through December 31, 2007. 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. Lake Waynoka Regional Water and Sewer District is responsible for compliance with these laws and regulations.

*Mary Taylor*

Mary Taylor, CPA  
Auditor of State

August 25, 2008

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**Lake Waynoka Regional Water and Sewer District**  
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*For the Year Ended December 31, 2007*

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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, 2007, 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.

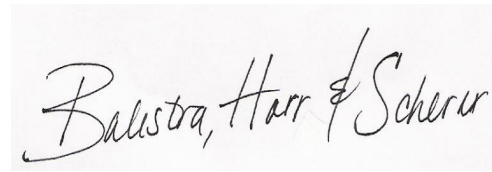
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities and each major fund of the District, as of December 31, 2007, and the respective changes in financial position and its cash flows, thereof for the 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 28, 2008, 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. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*.

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 28, 2008

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

*Management's Discussion and Analysis  
For the Year Ended December 31, 2007*

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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 \$3.51 million on December 31, 2007. The District's net assets decreased by \$129 thousand (-3.5%) in 2007.

The District's Operating Revenues decreased by nearly \$121 thousand (-25%) and Operating Expenses increased nearly \$55 thousand (12%) in 2007.

**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 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, 2007*

Table 1

	2007	2006 - As Restated	Change	2005 - As Restated	Change
Current and Other Assets	\$ 1,558,495	\$ 1,647,195	\$ (88,700)	\$ 1,522,612	\$ 124,583
Capital Assets	3,793,333	3,720,461	72,872	3,767,194	(46,733)
Total Assets	5,351,828	5,367,656	(15,828)	5,289,806	77,850
Long Term Liabilities	1,707,907	1,635,900	72,007	1,662,700	(26,800)
Current and Other Liabilities	129,837	89,086	40,751	47,171	41,915
Total Liabilities	1,837,744	1,724,986	112,758	1,709,871	15,115
Net Assets					
Invested in Capital Assets, Net of Related Debt	2,057,326	2,057,761	(435)	2,079,094	(21,333)
Restricted	107,732	104,721	3,011	100,000	4,721
Unrestricted	1,349,026	1,480,188	(131,162)	1,400,841	79,347
Total Net Assets	\$ 3,514,084	\$ 3,642,670	\$ (128,586)	\$ 3,579,935	\$ 62,735

The District's Net Assets decreased by \$129 thousand (-3.5%) in 2007, as a result of expenses exceeding revenues, and increased by 63 thousand (1.7%) in 2006, as a result of revenues exceeding expenses.

Restricted assets increased by \$3,011 in 2007 and \$4,721 in 2006. Restricted assets are cash that is limited in use as part of the District's Bond covenants.

Unrestricted net assets decreased by \$131 thousand (-8.9%) in 2007 and increased by more than \$79 thousand (5.7%) in 2006. Unrestricted net assets may be used without constraints established by bond covenants or other legal requirements. Unrestricted Cash and Cash Equivalents increased \$177 thousand in 2007 and \$113 thousand in 2006.

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

*Management's Discussion and Analysis  
For the Year Ended December 31, 2007*

**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		Difference	2005	
	2007	As Restated		As restated	Difference
Operating Revenues	\$ 363,215	\$ 483,793	\$ (120,578)	\$ 768,480	\$ (284,687)
Total Operating Revenues	363,215	483,793	(120,578)	768,480	(284,687)
Operating Expenses (Excluding Depreciation)	492,662	439,909	52,753	482,830	(42,921)
Depreciation Expense	188,855	186,724	2,131	186,659	65
Total Operating Expenses	681,517	626,633	54,884	669,489	(42,856)
Operating Gain (Loss)	(318,302)	(142,840)	(175,462)	98,991	(241,831)
Non-Operating Revenues	277,049	291,662	(14,613)	372,815	(81,153)
Non-Operating Expenses	87,333	86,087	1,246	87,348	(1,261)
Changes in Net Assets	(128,586)	62,735	(191,321)	384,458	(321,723)
Net Assets at Beginning of Year	3,642,670	3,579,935	62,735	3,195,477	384,458
Net Assets at End of Year	\$ 3,514,084	\$ 3,642,670	\$ (128,586)	\$ 3,579,935	\$ 62,735

Operating revenues decreased by nearly \$121 thousand (25%) in 2007. This decrease is due to a decrease in charges for services directly related to the decrease in accounts receivable. The operating expenses (excluding depreciation) increased by nearly \$53 thousand primarily due to increases in expenses for materials and supplies, repairs and maintenance, and contracted services. The decrease in non-operating revenues is primarily due to a decrease in connection fees received in 2007.

Operating revenues decreased by nearly \$285 thousand (37%) in 2006. This decrease is due to an decrease in charges for water and sewer 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 non-operating 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.

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

*Management's Discussion and Analysis  
For the Year Ended December 31, 2007*

**CAPITAL ASSETS**

The District had \$5.9 million invested in Capital Assets (before depreciation) at the end of 2007. This amount is an increase of \$262 thousand (4.6%) from the previous year. Most of the increase is due to construction in progress on a water filtration facility.

Table 3 shows the District's 2007 capital assets as compared to 2006 and 2005:

Table 3

	2007	2006	Change Amount	2005	Change Amount
Land Easements	\$ 140,829	\$ 140,829	\$ -	\$ 140,829	\$ -
Construction in Progress	185,841	-	185,841	-	-
Water & Sewer Plant	5,002,905	5,002,905	-	4,927,882	75,023
Machinery & Equipment	589,263	513,377	75,886	448,409	64,968
Furniture & Fixtures	20,720	20,720	-	20,720	-
Totals Before Accumulated Depreciation	<u>5,939,558</u>	<u>5,677,831</u>	<u>261,727</u>	<u>5,537,840</u>	<u>139,991</u>
Accumulated Depreciation	<u>(2,146,225)</u>	<u>(1,957,370)</u>	<u>(188,855)</u>	<u>(1,770,646)</u>	<u>(186,724)</u>
Net Capital Assets	<u><u>\$ 3,793,333</u></u>	<u><u>\$3,720,461</u></u>	<u><u>\$ 72,872</u></u>	<u><u>\$ 3,767,194</u></u>	<u><u>\$ (46,733)</u></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

	2007	2006	Change Amount	2005	Change Amount
Water Revenue Bonds	\$1,635,900	\$1,662,700	(\$26,800)	\$1,688,100	(\$25,400)
Ohio Water Development Authority (OWDA)	100,107	0	100,107	0	0
Total Long Term Debt	<u>1,736,007</u>	<u>1,662,700</u>	<u>73,307</u>	<u>1,688,100</u>	<u>(25,400)</u>
Less: Current Maturities	<u>28,100</u>	<u>26,800</u>	<u>1,300</u>	<u>25,400</u>	<u>1,400</u>
Net Total Long Term Debt	<u><u>\$1,707,907</u></u>	<u><u>\$1,635,900</u></u>	<u><u>\$72,007</u></u>	<u><u>\$1,662,700</u></u>	<u><u>(\$26,800)</u></u>

The majority of the District's debt is paid from revenues, excluding capital contributions. See note 5 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, 2007*

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**CASH**

Cash and Cash Equivalents were \$988 thousand on December 31, 2007 and \$808 thousand on December 31, 2006. \$108 thousand and \$105 thousand of these funds were restricted for specific use in 2007 and 2006, 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, 2007

	<u>Water</u>	<u>Sewer</u>	<u>Total Business- Type Activities</u>
<i>Assets:</i>			
Current Assets:			
Cash and Cash Equivalents	\$ 315,364	\$ 565,028	\$ 880,392
Accounts Receivable	542,221	26,530	568,751
Prepaid Expenses	619	619	1,238
Interest Receivable	-	382	382
Total Current Assets	<u>858,204</u>	<u>592,559</u>	<u>1,450,763</u>
Noncurrent Assets:			
Restricted Assets:			
Cash and Cash Equivalents Restricted for Debt Service	-	107,732	107,732
Capital Assets:			
Non-Depreciable Capital Assets	186,841	139,829	326,670
Depreciable Capital Assets Net of Accumulated Depreciation	<u>384,796</u>	<u>3,081,867</u>	<u>3,466,663</u>
Total Capital Assets	<u>571,637</u>	<u>3,221,696</u>	<u>3,793,333</u>
Total Assets	1,429,841	3,921,987	5,351,828
<i>Liabilities:</i>			
Current Liabilities:			
Accounts Payable	91,792	3,088	94,880
Accrued Interest	-	6,857	6,857
Construction Bonds Payable	-	28,100	28,100
Total Current Liabilities	<u>91,792</u>	<u>38,045</u>	<u>129,837</u>
Noncurrent Liabilities:			
Construction Bonds Payable	-	1,607,800	1,607,800
OWDA Loan Payable	<u>100,107</u>	-	<u>100,107</u>
Total Noncurrent Liabilities	<u>100,107</u>	<u>1,607,800</u>	<u>1,707,907</u>
Total Liabilities	191,899	1,645,845	1,837,744
<i>Net Assets:</i>			
Invested in Capital Assets, Net of Related Debt	471,530	1,585,796	2,057,326
Restricted for Debt Service	-	107,732	107,732
Unrestricted	766,412	582,614	1,349,026
Total Net Assets	<u>\$ 1,237,942</u>	<u>\$ 2,276,142</u>	<u>\$ 3,514,084</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, 2007

	Water	Sewer	Total Business- Type Activities
<i>Operating Revenues:</i>			
Charges for Services	\$ 117,570	\$ 244,063	\$ 361,633
Miscellaneous	1,579	3	1,582
Total Operating Revenues	119,149	244,066	363,215
<i>Operating Expenses:</i>			
Utilities	15,099	25,027	40,126
Professional Services	9,408	6,692	16,100
Depreciation	45,217	143,638	188,855
Materials and Supplies	31,070	8,285	39,355
Insurance	9,440	9,440	18,880
Repairs and Maintenance	35,037	41,147	76,184
Contracted Services	148,084	148,084	296,168
Miscellaneous	3,301	2,548	5,849
Total Operating Expenses	296,656	384,861	681,517
Operating Income/(Loss)	(177,507)	(140,795)	(318,302)
<i>Nonoperating Revenues:</i>			
Interest Revenue	8,815	12,535	21,350
Special Assessments	-	120,574	120,574
Connection Fees	34,500	100,625	135,125
Total Nonoperating Revenues	43,315	233,734	277,049
<i>Nonoperating Expenses:</i>			
Interest Expense	(2,572)	(84,761)	(87,333)
Total Nonoperating Expenses	(2,572)	(84,761)	(87,333)
Changes in Net Assets	(136,764)	8,178	(128,586)
Net Assets, Beginning of Year (as restated) - See note 2	1,374,706	2,267,964	3,642,670
Net Assets, End of Year	\$ 1,237,942	2,276,142	\$ 3,514,084

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, 2007

	Water	Sewer	Total Business- Type Activities
<i>Cash Flows from Operating Activities:</i>			
Cash received from customers	\$ 301,612	\$ 253,070	\$ 554,682
Cash received from others	1,579	3	1,582
Cash payments to suppliers for goods and services	(252,600)	(212,320)	(464,920)
Net cash provided by operating activities	<u>50,591</u>	<u>40,753</u>	<u>91,344</u>
<i>Cash Flows from Capital and Related Financing Activities:</i>			
Assessments	-	120,574	120,574
Connection fees	34,500	100,625	135,125
Revenue bond principal payments	-	(26,800)	(26,800)
Revenue bond interest payments	-	(84,874)	(84,874)
Proceeds from OWDA loan	110,000	-	110,000
OWDA loan principal payments	(9,893)	-	(9,893)
OWDA loan interest payments	(2,569)	-	(2,569)
Capital outlay	(96,991)	(77,185)	(174,176)
Net cash provided (used) by capital and related financing activities	<u>35,047</u>	<u>32,340</u>	<u>67,387</u>
<i>Cash Flows from Investing Activities:</i>			
Interest on cash and investments	<u>8,815</u>	<u>12,740</u>	<u>21,555</u>
Net increase in cash and cash equivalents	94,453	85,833	180,286
Cash and cash equivalents at beginning of year	<u>220,911</u>	<u>586,927</u>	<u>807,838</u>
Cash and cash equivalents at end of year	<u>\$ 315,364</u>	<u>\$ 672,760</u>	<u>\$ 988,124</u>
<i>Reconciliation of Operating Income/(Loss) to Net Cash Provided by Operating Activities:</i>			
Operating income/(loss)	\$ (177,507)	\$ (140,795)	\$ (318,302)
<i>Adjustments to Reconcile Operating Income/(Loss) to Net Cash Provided by Operating Activities:</i>			
Depreciation	45,217	143,638	188,855
<i>Changes in Assets and Liabilities:</i>			
Decrease in accounts receivable	184,042	9,007	193,049
(Increase) in prepaid insurance	(77)	(77)	(154)
Decrease in inventory	-	75,886	75,886
(Decrease) in accounts payable (operating)	(1,084)	(46,906)	(47,990)
Total adjustments	<u>228,098</u>	<u>181,548</u>	<u>409,646</u>
Net cash provided by operating activities	<u>\$ 50,591</u>	<u>\$ 40,753</u>	<u>\$ 91,344</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, 2007*

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**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. 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, 2007*

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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 2007.

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. Beginning in fiscal year 2003, the District has maintained a capitalization threshold of \$500. 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 2007 was \$188,855.

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, 2007*

**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.

**K. RESTRICTED ASSETS**

Restricted assets represent cash required to be set aside by bond debt covenants for future debt service. Of the District's \$107,732 of restricted net assets, none are restricted by enabling legislation.

**L. PREPAID EXPENSES**

Payments made to vendors for services that will benefit periods beyond December 31, 2007 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.

**M. 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 – RESTATEMENT OF NET ASSETS**

A restatement to net assets was made in order to correct the beginning balance of cash for the water and sewer funds, and a prior period adjustment was made in order to correct accounts receivable for the water fund. This restatement had the follow effect on net assets:

	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
Net Assets, December 31, 2006	\$678,794	\$2,302,964	\$2,981,758
Reclassification of Cash	35,000	(35,000)	-
Prior Period Adjustment of Accounts Receivables	<u>660,912</u>	<u>-</u>	<u>660,912</u>
Restated Net Assets, December 31, 2006	<u>\$1,374,706</u>	<u>\$2,267,964</u>	<u>\$3,642,670</u>

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

*Notes to the Basic Financial Statements  
For the Year Ended December 31, 2007*

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**NOTE 3 - 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 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.

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

*Notes to the Basic Financial Statements  
For the Year Ended December 31, 2007*

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NOTE 3 - EQUITY IN POOLED CASH AND CASH EQUIVALENTS – (Continued)

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 the failure of the counterparty, the District's deposits may not be returned. According to state law, public depositories must give security for all public funds in excess of those funds that are insured by the Federal Deposit Insurance Corporation (FDIC) or by any other agency or instrumentality of the federal government. These institutions may either specifically collateralize individual accounts in lieu of amounts insured by the FDIC or may pledge a pool of government securities valued at least 105% of the total value of public monies on deposit at the institution. The District's policy is to deposit money with financial institutions that are able to abide by the laws governing insurance and collateralization of public funds.

As of December 31, 2007, the District's bank balance of \$977,416 is either covered by FDIC or collateralized by the financial institutions public entity deposit pools in the manner described above.

NOTE 4 - 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 2007 the District paid \$296,168 to the WPOA for the contract.

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

*Notes to the Basic Financial Statements  
For the Year Ended December 31, 2007*

**NOTE 5 - LONG-TERM OBLIGATIONS**

Debt outstanding at December 31, 2007 was as follows:

	Balance 12/31/2006	Additions	Deletions	Balance 12/31/2007	Due in One Year
Water Revenue Bonds, Series A, 5.125%	\$ 1,205,000	\$ -	\$ 19,400	\$ 1,185,600	\$ 20,400
Water Revenue Bonds, Series B, 5.125%	191,700	-	3,100	188,600	3,200
Water Revenue Bonds, Series C, 5.125%	266,000	-	4,300	261,700	4,500
OWDA Loan #4727, 4.67%	-	110,000	9,893	100,107	-
<b>Totals</b>	<b>\$ 1,662,700</b>	<b>\$ 110,000</b>	<b>\$ 36,693</b>	<b>\$ 1,736,007</b>	<b>\$ 28,100</b>

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.

The District obtained a five-year loan from the Ohio Water Development Authority (OWDA) during fiscal year 2007 in the amount of \$110,000 at 4.67% interest for the construction of a carbon filtration building.

Amortization of the above debt is scheduled as follows:

Year Ending December 30,	Water Revenue Bonds		
	Principal	Interest	Total
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	34,400	77,177	111,577
2013-2017	200,900	357,166	558,066
2018-2022	258,500	299,326	557,826
2023-2027	333,100	224,900	558,000
2028-2032	428,700	129,024	557,724
2033-2035	258,800	20,228	279,028
<b>Total</b>	<b>\$ 1,635,900</b>	<b>\$ 1,432,692</b>	<b>\$ 3,068,592</b>

Project loan agreement 4727 has not been finalized with the OWDA; therefore, no amortization schedule has been created. As a result this loan is not shown on the above maturity schedule.

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

*Notes to the Basic Financial Statements  
For the Year Ended December 31, 2007*

**NOTE 6 - 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 commercial insurance coverage for the District the following risks:

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

There have been no significant reductions in insurance coverage from prior years. There had been no insurance settlements which exceeded insurance coverage during the past three years.

**NOTE 7 - CAPITAL ASSETS**

Capital assets activity for the fiscal year ended December 31, 2007 was as follows:

	Ending Balance 12/31/06	Additions	Deletions	Ending Balance 12/31/07
Capital Assets, Not Being Depreciated				
Land Easements	\$ 140,829	\$ -	\$ -	\$ 140,829
Construction in Progress	-	185,841	-	185,841
Total Capital Assets, Not Being Depreciated	<u>140,829</u>	<u>185,841</u>	<u>-</u>	<u>326,670</u>
Capital Assets Being Depreciated				
Water and Sewer Plant	5,002,905	-	-	5,002,905
Furniture and Fixtures	20,720	-	-	20,720
Machinery and Equipment	513,377	75,886	-	589,263
Total Capital Assets, Being Depreciated	<u>5,537,002</u>	<u>75,886</u>	<u>-</u>	<u>5,612,888</u>
Less Accumulated Depreciation:				
Water and Sewer Plant	(1,587,017)	(153,010)	-	(1,740,027)
Furniture and Fixtures	(17,296)	(847)	-	(18,143)
Machinery and Equipment	(353,057)	(34,998)	-	(388,055)
Total Accumulated Depreciation	<u>(1,957,370)</u>	<u>(188,855)</u>	<u>-</u>	<u>(2,146,225)</u>
Total Capital Assets Being Depreciated, Net	<u>3,579,632</u>	<u>(112,969)</u>	<u>-</u>	<u>3,466,663</u>
Total Capital Assets, Net	<u>\$ 3,720,461</u>	<u>\$ 72,872</u>	<u>\$ -</u>	<u>\$ 3,793,333</u>

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

*Notes to the Basic Financial Statements  
For the Year Ended December 31, 2007*

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**NOTE 8 – CHANGE IN ACCOUNTING PRINCIPLES**

For the year ended December 31, 2007, the District implemented GASB Statement No. 48, Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues. The application of this new standard did not have an effect on the financial statements, nor did their implementation require a restatement of prior year net assets.

# 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, 2007, which collectively comprise the District's basic financial statements as listed in the table of contents, and have issued our report thereon dated March 28, 2008, in which we indicated the District implemented Governmental Accounting Standards Board Statement No. 48. 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 opinions 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider to be a significant deficiency.

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 District'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 District's financial statements that is more than inconsequential will not be prevented or detected by District's internal control. We consider the deficiency described in the accompanying schedule of findings as item 2007-001 to be a significant deficiency in internal control over financial reporting.

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 prevented or detected by the District's internal control. Our consideration of the 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 the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. We consider the item described above to be a material weakness.

We noted certain matters that will be reported to management in a separate letter dated March 28, 2008.



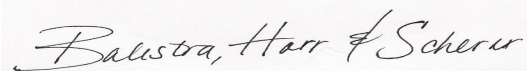
### **Compliance and Other Matters**

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 an instance of noncompliance that is required to be reported under *Government Auditing Standard* and which is described in the accompanying Schedule of Findings as item 2007-002.

We noted another instance of noncompliance that will be reported to management in a separate letter dated March 28, 2008.

The District's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the District's responses and, accordingly, we express no opinion on them.

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 28, 2008

**LAKE WAYNOKA REGIONAL WATER AND SEWER DISTRICT**  
**BROWN COUNTY**  
**SCHEDULE OF FINDINGS**  
**FOR THE YEAR ENDED DECEMBER 31, 2007**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b>
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**FINDING NUMBER 2007-001**

**Significant Deficiency – Material Weakness**

Material and immaterial misstatements were identified during the audit which should have been prevented or detected by the District’s internal controls over financial reporting. Material misstatements were identified in the following areas:

- Improperly recorded accounts receivable
- Cash

Prior period adjustments were required to correct beginning balances in the water and sewer funds, for misstated beginning cash balances, and for improperly recording accounts receivable in the water fund. Immaterial adjustments were identified in capital assets and passed on.

The accompanying financial statements were adjusted to reflect correction of material misstatements. The District should implement application and monitoring controls over financial reporting to ensure that all financial statement transactions are accurately and completely reported.

**Client Response:**

The district will make every effort to correct this in 2008.

**FINDING NUMBER 2007-002**

**Material Citation**

**Ohio Revised Code §6119.06(W)** states that when charges for the use of services of any water resource are not paid when due and upon certification of nonpayment to the county auditor, such charges constitute a lien upon the property so served, shall be placed by the auditor upon the real property tax list and duplicate, and shall be collected in the same manner as other taxes.

The District did not certify delinquent water availability fees to the county auditor.

The District should certify nonpayment of water availability fees to the county auditor, to place a lien on the real property tax list and duplicate to collect in the same manner as other taxes.

**Client Response:**

The district will make every effort to correct this in 2008.



**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  
SEPTEMBER 4, 2008**