



# Balestra, Harr & Scherer, CPAs, Inc.

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Accounting, Auditing and Consulting Services for Federal, State and Local Governments

[www.bhscpas.com](http://www.bhscpas.com)

LAKE WAYNOKA REGIONAL WATER AND SEWER DISTRICT  
BROWN COUNTY, OHIO

REGULAR AUDIT

For the Year Ended December 31, 2011  
Fiscal Year Audited Under GAGAS: 2011





# Dave Yost • Auditor of State

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

We have reviewed the *Independent Auditor's Report* of the Lake Waynoka Regional Water and Sewer District, Brown County, prepared by Balestra, Harr & Scherer, CPAs, Inc., for the audit period January 1, 2010 through December 31, 2011. 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 black ink that reads "Dave Yost".

Dave Yost  
Auditor of State

July 16, 2012

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**LAKE WAYNOKA REGIONAL WATER AND SEWER DISTRICT  
BROWN COUNTY, OHIO**

**BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2011**

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# Balestra, Harr & Scherer, CPAs, Inc.

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## Independent Auditor's Report

Members of the 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 of the Lake Waynoka Regional Water and Sewer District, Brown County, Ohio, (the District) as of and for the year ended December 31, 2011, 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.

Except as discussed in the following paragraph, 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 the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure 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 significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

We were unable to obtain sufficient evidential matter supporting the amounts recorded as accounts receivable and charges for service revenue. Accounts receivable are reported at \$10,636 and \$12,765 in the Water and Sewer funds, respectively for the year ended December 31, 2011. Charges for service are reported at \$314,745 and \$290,430 in the Water and Sewer funds, respectively for the year ended December 31, 2011. We were unable to determine the completeness or accuracy of accounts receivable and charges for service revenue through alternative procedures.

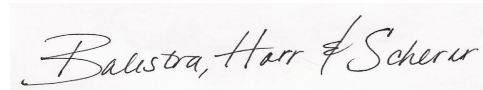
In our opinion, except for the effects of such adjustments or changes to accounts receivable and charges for service revenue, if any, as might have been determined necessary had we been able to examine evidence regarding accounts receivable of the District, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of Lake Waynoka Regional Water and Sewer District, Brown County, Ohio, as of December 31, 2011, and the respective changes in financial position and cash flows, thereof 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 May 25, 2012 on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance, and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require this presentation to include *Management's discussion and analysis*, as listed in the table of contents, to supplement the basic financial statements. Although this information is not part of the basic financial statements, the Governmental Accounting Standards Board considers it essential for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial

Members of the Board of Trustees  
Lake Waynoka Regional Water and Sewer District  
Independent Auditor's Report  
Page 2

statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any other assurance.

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.  
May 25, 2012

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

*Management's Discussion and Analysis*  
*For the Year Ended December 31, 2011*

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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 \$3,009,615 on December 31, 2011. The District's net assets increased by \$46,074 (1.6%) in 2011.

The District's operating revenues increased by \$71,975 (13.5%) and operating expenses decreased \$41,641 (5.5%) in 2011.

**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 of 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 notes to the basic financial statements are an integral part of the basic financial statements and provide expanded explanation and detail regarding the information reported in the basic financial statements.

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.



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

*Management's Discussion and Analysis*  
*For the Year Ended December 31, 2011*

**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.

	Net Assets		
	Table 1		
	2011	2010	Change
Current and Other Assets	\$964,698	\$828,622	\$136,076
Capital Assets	3,678,442	3,863,798	(185,356)
Total Assets	4,643,140	4,692,420	(49,280)
Long Term Liabilities	1,531,056	1,600,251	(69,195)
Current and Other Liabilities	102,469	128,628	(26,159)
Total Liabilities	1,633,525	1,728,879	(95,354)
Net Assets			
Invested in Capital Assets,			
Net of Related Debt	2,078,191	2,187,994	(109,803)
Restricted	111,500	111,500	0
Unrestricted	819,924	664,047	155,877
Total Net Assets	<u>\$3,009,615</u>	<u>\$2,963,541</u>	<u>\$46,074</u>

Current and other assets increased \$136,076 (16.4%), primarily as a result of an increase in cash in 2011. Capital assets decreased \$185,356 (-4.8%), primarily as a result of current year depreciation, which was partially offset by current year additions.

Current and other liabilities decreased \$26,159 (-20.3%), primarily as a result of a decrease in accounts payable. Long term liabilities decreased \$69,195 (-4.3%), due to debt principal payments and reclassifications of debt balances into the current portion of liabilities.

Net assets invested in capital assets, net of related debt decreased \$109,803 (-5%), primarily as a result of a net decrease in capital assets which was partially offset by current year debt principal payments. Net assets restricted for debt service remained the same. Unrestricted net assets increased \$155,877 (23.5%), primarily due to revenues exceeding expenses.

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

*Management's Discussion and Analysis*  
*For the Year Ended December 31, 2011*

**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.

Change in Net Assets			
Table 2			
	2011	2010	Change
Operating Revenues	\$607,030	\$535,055	\$71,975
Total Operating Revenues	607,030	535,055	71,975
Operating Expenses (Excluding Depreciation)	517,045	567,847	(50,802)
Depreciation Expense	201,713	192,552	9,161
Total Operating Expenses	718,758	760,399	(41,641)
Operating Loss	(111,728)	(225,344)	113,616
Non-Operating Revenues	242,357	297,562	(55,205)
Non-Operating Expenses	(84,555)	(82,807)	(1,748)
Changes in Net Assets Before Special Item	46,074	(10,589)	56,663
Special Item			
Reduction of Receivables Due to One-Time Write-Off of Balance	0	(241,534)	241,534
Changes in Net Assets	46,074	(252,123)	298,197
Net Assets at Beginning of Year	2,963,541	3,215,664	(252,123)
Net Assets at End of Year	<u>\$3,009,615</u>	<u>\$2,963,541</u>	<u>\$46,074</u>

Operating revenues increased by \$71,975 (13.5%) in 2011, primarily due to an increase in water and sewer usage fees. Operating expenses (excluding depreciation) decreased by \$50,802 (-8.9%) primarily due to decreases in expenses for contracted services and a decrease in expenses for repairs and maintenance. Non-operating revenues decreased \$55,205 (-18.6%) in 2011. This decrease was primarily due to decreases in connection fees. The decrease in connection fees was due to a decrease in the number of homes built and connected to the District in 2011 as compared to 2010.

**CAPITAL ASSETS**

The District had \$6,607,785 invested in capital assets (before depreciation of \$2,929,343) at the end of 2011. This represents a decrease of \$185,356, which is a result of current year depreciation exceeding capital asset additions for the year.

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

*Management's Discussion and Analysis  
For the Year Ended December 31, 2011*

Table 3 shows the District's 2011 capital assets as compared to 2010:

Capital Assets  
(Net of Accumulated Depreciation)  
Table 3

	2011	2010	Change
Land Easements	\$140,829	\$140,829	\$0
Construction in Progress	0	47,382	(47,382)
Water and Sewer Plant	3,389,433	3,519,708	(130,275)
Furniture and Fixtures	834	1,128	(294)
Machinery and Equipment	147,346	154,751	(7,405)
Net Capital Assets	<u>\$3,678,442</u>	<u>\$3,863,798</u>	<u>(\$185,356)</u>

See Note 6 to the basic financial statements for more information on the District's capital assets.

**DEBT**

The District issues long term obligations to finance much of its construction. Water revenue bonds were used to finance most general improvement projects. A capital lease was entered into during fiscal year 2010 to finance the water meter reading project.

Long Term Liabilities  
Table 4

	2011	2010	Change
Water Revenue Bonds	\$1,514,400	\$1,547,100	(\$32,700)
Ohio Water Development Authority (OWDA)	12,177	35,704	(23,527)
Capital Lease	73,674	93,000	(19,326)
Total Long Term Debt	1,600,251	1,675,804	(75,553)
Less: Current Maturities	69,195	75,553	(6,358)
Net Total Long Term Debt	<u>\$1,531,056</u>	<u>\$1,600,251</u>	<u>(\$69,195)</u>

The majority of the District's debt is paid from revenues, excluding capital contributions. See Note 4 and Note 8 to the basic financial statements for additional information on the District's long term obligations.

**CASH**

Cash and cash equivalents were \$939,467 on December 31, 2011. \$111,500 of these funds were restricted for specific use in 2011. These restricted accounts are for debt reserves.

**CONTACT INFORMATION**

Questions regarding this report and requests for additional information should be forwarded to Paul Cahall, 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, Ohio**

*Statement of Net Assets*

*As of December 31, 2011*

	Water	Sewer	Total Business- Type Activities
<i>Assets:</i>			
<i>Current Assets:</i>			
Cash and Cash Equivalents	\$158,674	\$669,293	\$827,967
Accounts Receivable	10,636	12,765	23,401
Prepaid Expenses	582	582	1,164
Interest Receivable	0	666	666
<b>Total Current Assets</b>	<b>169,892</b>	<b>683,306</b>	<b>853,198</b>
<i>Noncurrent Assets:</i>			
<i>Restricted Assets:</i>			
Cash and Cash Equivalents Restricted for Debt Service	0	111,500	111,500
<i>Capital Assets:</i>			
Non-Depreciable Capital Assets	1,000	139,829	140,829
Depreciable Capital Assets Net of Accumulated Depreciation	660,142	2,877,471	3,537,613
<b>Total Capital Assets</b>	<b>661,142</b>	<b>3,017,300</b>	<b>3,678,442</b>
<b>Total Assets</b>	<b>831,034</b>	<b>3,812,106</b>	<b>4,643,140</b>
<i>Liabilities:</i>			
<i>Current Liabilities:</i>			
Accounts Payable	7,474	19,458	26,932
Accrued Interest	0	6,342	6,342
Construction Bonds Payable	0	34,400	34,400
OWDA Loan Payable	12,177	0	12,177
Capital Lease Payable	22,618	0	22,618
<b>Total Current Liabilities</b>	<b>42,269</b>	<b>60,200</b>	<b>102,469</b>
<i>Noncurrent Liabilities:</i>			
Construction Bonds Payable	0	1,480,000	1,480,000
Capital Lease Payable	51,056	0	51,056
<b>Total Noncurrent Liabilities</b>	<b>51,056</b>	<b>1,480,000</b>	<b>1,531,056</b>
<b>Total Liabilities</b>	<b>93,325</b>	<b>1,540,200</b>	<b>1,633,525</b>
<i>Net Assets:</i>			
Invested in Capital Assets, Net of Related Debt	575,291	1,502,900	2,078,191
Restricted for Debt Service	0	111,500	111,500
Unrestricted	162,418	657,506	819,924
<b>Total Net Assets</b>	<b>\$737,709</b>	<b>\$2,271,906</b>	<b>\$3,009,615</b>

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

**Lake Waynoka Regional Water and Sewer District**  
**Brown County, Ohio**  
*Statement of Revenues, Expenses and Changes in Net Assets*  
*For the Year Ended December 31, 2011*

	Water	Sewer	Total Business- Type Activities
<i>Operating Revenues:</i>			
Charges for Services	\$314,745	\$290,430	\$605,175
Miscellaneous	1,755	100	1,855
Total Operating Revenues	<u>316,500</u>	<u>290,530</u>	<u>607,030</u>
<i>Operating Expenses:</i>			
Utilities	14,384	28,541	42,925
Professional Services	12,411	8,568	20,979
Depreciation	43,375	158,338	201,713
Materials and Supplies	34,616	6,292	40,908
Insurance	10,893	12,912	23,805
Repairs and Maintenance	14,465	40,039	54,504
Contracted Services	158,012	165,868	323,880
Miscellaneous	1,527	8,517	10,044
Total Operating Expenses	<u>289,683</u>	<u>429,075</u>	<u>718,758</u>
Operating Income (Loss)	<u>26,817</u>	<u>(138,545)</u>	<u>(111,728)</u>
<i>Nonoperating Revenues:</i>			
Interest Revenue	254	14,816	15,070
Special Assessments	0	117,007	117,007
Connection Fees	24,000	86,280	110,280
Total Nonoperating Revenues	<u>24,254</u>	<u>218,103</u>	<u>242,357</u>
<i>Nonoperating Expenses:</i>			
Interest Expense	(5,819)	(78,736)	(84,555)
Total Nonoperating Expenses	<u>(5,819)</u>	<u>(78,736)</u>	<u>(84,555)</u>
Changes in Net Assets	45,252	822	46,074
Net Assets, Beginning of Year	<u>692,457</u>	<u>2,271,084</u>	<u>2,963,541</u>
Net Assets, End of Year	<u>\$737,709</u>	<u>\$2,271,906</u>	<u>\$3,009,615</u>

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

**Lake Waynoka Regional Water and Sewer District**

**Brown County, Ohio**

*Statement of Cash Flows*

*For the Year Ended December 31, 2011*

	Water	Sewer	Total Business- Type Activities
<i>Cash Flows from Operating Activities:</i>			
Cash Received from Customers	\$313,781	\$289,725	\$603,506
Cash Received from Others	1,755	100	1,855
Cash Payments to Suppliers for Goods and Services	(245,731)	(279,632)	(525,363)
Net Cash Provided by Operating Activities	69,805	10,193	79,998
<i>Cash Flows from Capital and Related Financing Activities:</i>			
Assessments	0	117,007	117,007
Connection Fees	24,000	86,280	110,280
Revenue Bond Principal Payments	0	(32,700)	(32,700)
Revenue Bond Interest Payments	0	(78,874)	(78,874)
Capital Lease Obligation Principal Payments	(19,326)	0	(19,326)
Capital Lease Obligation Interest Payments	(4,423)	0	(4,423)
OWDA Loan Principal Payments	(23,527)	0	(23,527)
OWDA Loan Interest Payments	(1,396)	0	(1,396)
Capital Outlay	(20,066)	(7,638)	(27,704)
Net Cash Provided (Used) by Capital and Related Financing Activities	(44,738)	84,075	39,337
<i>Cash Flows from Investing Activities:</i>			
Interest on Cash and Investments	254	16,521	16,775
Net Increase in Cash and Cash Equivalents	25,321	110,789	136,110
Cash and Cash Equivalents at Beginning of Year	133,353	670,004	803,357
Cash and Cash Equivalents at End of Year	\$158,674	\$780,793	\$939,467
<i>Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities:</i>			
Operating Income (Loss)	\$26,817	(\$138,545)	(\$111,728)
<i>Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by Operating Activities:</i>			
Depreciation	43,375	158,338	201,713
<i>Changes in Assets and Liabilities:</i>			
Increase in Accounts Receivable (Operating)	(964)	(705)	(1,669)
Increase in Prepaid Insurance	(1)	(1)	(2)
Decrease in Accounts Payable (Operating)	578	(8,894)	(8,316)
Total Adjustments	42,988	148,738	191,726
Net Cash Provided by Operating Activities	\$69,805	\$10,193	\$79,998

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

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

*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2011*

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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 on February 7, 1992. The District is directed by a publicly elected nine-member Board of Trustees who serve three-year terms and three members are elected each year. The District was established to provide an adequate and uncontaminated water supply for the consumption of the water, and sanitary sewer services to District residents of the Lake Waynoka subdivision of Sardinia, Ohio.

In accordance with the provisions of Governmental Accounting Standards Board (GASB) Statement No. 14, The Financial Reporting Entity, and GASB Statement No. 39, Determining Whether Certain Organizations are Component Units (an amendment of GASB Statement No. 14), the accompanying financial statements include only the accounts and transactions of the District. Under the criteria specified in these GASB Statements, the District has no component units nor is it considered a component unit of the State of Ohio. The District is considered, however, a political subdivision of the State of Ohio. These conclusions regarding the financial reporting entity are based on the concept of financial accountability. The District is not financially accountable for any other organizations. This is evidenced by the fact that the District is a legally and fiscally separate and distinct organization. The District is solely responsible for its finances. The District is empowered to issue debt payable solely from District receipts.

Component units are legally separate organizations for which the District is financially accountable. The District is financially accountable for an organization if it appoints a voting majority of the organization's governing board and (1) is able to significantly influence the programs or services performed or provided by the organization; or (2) is legally entitled to or can otherwise access the organization's resources; is legally obligated or has otherwise assumed the responsibility to finance deficits of or provide financial support to the organization; or is obligated for the debt of the organization. Based upon the application of these criteria, the District has no component units.

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

**B. BASIS OF ACCOUNTING**

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

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

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

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

*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2011*

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

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.

**D. FUND ACCOUNTING**

The District uses fund accounting to segregate cash that is restricted as to use. The District's funds fall under the proprietary fund type, which accounts for operations that are organized to be self-supporting through user charges. The funds included in this category are enterprise funds.

**Enterprise Funds**

These funds are established to account for operations that are financed and operated in a manner similar to private business enterprises where the intent is that costs of providing certain goods or services to the general public on a continuing basis are financed or received primarily through user charges. Both funds used by the District are enterprise funds and are described below:

**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 2011. A summary of budgetary information for 2011 appears in Note 7.



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

*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2011*

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

**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. The District maintains a capitalization threshold of \$1,000. Depreciation of capital assets of the District is calculated on the straight line method with the plant, tanks and lines being depreciated at a rate of 3% per year and other equipment and fixtures at a rate of 10% per year. Infrastructure assets are included in water and sewer plant and are depreciated at a rate of 3% per year. The depreciation methods are designed to amortize the costs of the assets over their estimated useful lives. Depreciation expense for 2011 was \$201,713.

**G. LONG-TERM OBLIGATIONS**

Long-term debt is reported as a liability in the accompanying basic financial statements.

**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.

**I. OPERATING REVENUES AND EXPENSES**

Operating revenues are those revenues that are generated directly from the primary activity of the enterprise funds. For the District, these revenues are charges for water and sewer services provided. Operating expenses are necessary costs incurred to provide the goods and/or services that are the primary activity of the funds.

**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. The District's \$111,500 in restricted net assets are not restricted by enabling legislation.

**K. RESTRICTED ASSETS**

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

**L. PREPAID EXPENSES**

Payments made to vendors for services that will benefit periods beyond December 31, 2011 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.

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

*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2011*

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

M. ACCOUNTS RECEIVABLE

*Sewer Accounts Receivable* – These receivables are shown net of any allowance for uncollectible accounts. The allowance is based on aged accounts receivable and current year operating revenues. There was no allowance reported at December 31, 2011.

*Water Accounts Receivable* – These receivables are presented at their net realizable value. Uncollectible account balances are certified to the County Auditor after administrative collection efforts have been exhausted. There was no allowance reported at December 31, 2011.

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 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;

**Lake Waynoka Regional Water and Sewer District**

**Brown County, Ohio**

*Notes to the Basic Financial Statements*

*For the Year Ended December 31, 2011*

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

5. Time certificates of deposit or savings or deposit accounts, including, but not limited to, passbook accounts;
6. No-load money market mutual funds consisting exclusively of obligations described in items (1) and (2) of this footnote and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
7. The State Treasurer's investment pool (STAR Ohio);
8. Securities lending agreements in which the District lends securities and the eligible institution agrees to exchange either securities described in division (1) or (2), or cash, or both securities and cash, equal value for equal value;
9. High grade commercial paper in an amount not to exceed five percent of the District's total average portfolio; and
10. Bankers' acceptances for a period not to exceed 270 days and in an amount not to exceed ten percent of the District's average portfolio.

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

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, 2011, the District's bank balance of \$925,984 is either covered by FDIC or collateralized by the financial institution's public entity deposit pool in the manner described above.

**NOTE 3 – RELATED PARTY TRANSACTIONS**

A contract was entered into on July 13, 1988 with the Waynoka Property Owners Association (WPOA) for WPOA to provide the District with administrative, maintenance, and management staff as well as office supplies, rental, and other fees associated with the maintenance and upkeep of the building housing the District. A contract is signed on a yearly basis between the District and WPOA. WPOA is responsible for all payroll and related deductions and matches. During 2011, the District paid \$300,675 to the WPOA for the contract.

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

*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2011*

**NOTE 4 - LONG-TERM OBLIGATIONS**

Debt outstanding at December 31, 2011 was as follows:

	Balance 12/31/2010	Additions	Deletions	Balance 12/31/2011	Due in One Year
Water Revenue Bonds, Series A, 5.125%	\$1,121,200	\$0	\$23,700	\$1,097,500	\$24,900
Water Revenue Bonds, Series B, 5.125%	178,400	0	3,800	174,600	4,000
Water Revenue Bonds, Series C, 5.125%	247,500	0	5,200	242,300	5,500
OWDA Loan #4727, 4.67%	35,704	0	23,527	12,177	12,177
Capital Lease Obligation	93,000	0	19,326	73,674	22,618
<b>Totals</b>	<b>\$1,675,804</b>	<b>\$0</b>	<b>\$75,553</b>	<b>\$1,600,251</b>	<b>\$69,195</b>

The District's capital lease obligation is disclosed in more detail in Note 8.

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) with an annual interest rate of 5.125% and maturities through June 1, 2035. The bonds are collateralized by the assessment revenues and future revenues from the District's sewer operations.

The District obtained a five-year loan from the Ohio Water Development Authority (OWDA) during 2007 in the amount of \$110,000 at 4.67% interest for the construction of a carbon filtration building. The loan is collateralized by the assessment revenues and future revenues from the District's water operations.

In connection with the revenue bonds and OWDA loan, the District has pledged future operating revenues to repay this debt. The bonds and loan are payable through their final maturities solely from operating revenues received during the course of business. Revenues available for these bonds and loan for 2011 were \$123,240. Principal and interest payments totaled \$136,497 for the year. The coverage ratio for these bonds and loan was .90 for the year ended December 31, 2011.

Amortization of the above debt is scheduled as follows:

Year Ending December 30,	Water Revenue Bonds		OWDA Loans		Total
	Principal	Interest	Principal	Interest	
2012	\$34,400	\$77,177	\$12,177	\$284	\$124,038
2013	36,200	75,391	0	0	111,591
2014	38,100	73,513	0	0	111,613
2015	40,000	71,535	0	0	111,535
2016	42,200	69,459	0	0	111,659
2017-2021	246,000	312,093	0	0	558,093
2022-2026	316,500	241,331	0	0	557,831
2027-2031	407,500	150,179	0	0	557,679
2032-2035	353,500	37,147	0	0	390,647
<b>Total</b>	<b>\$1,514,400</b>	<b>\$1,107,825</b>	<b>\$12,177</b>	<b>\$284</b>	<b>\$2,634,686</b>

**Lake Waynoka Regional Water and Sewer District**

**Brown County, Ohio**

*Notes to the Basic Financial Statements*

*For the Year Ended December 31, 2011*

**NOTE 5 - RISK MANAGEMENT**

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

Commercial Property:	
Blanket Building	\$ 7,538,000
Blanket Business Personal Property	505,000
General Liability:	
Each occurrence	1,000,000
Aggregate	2,000,000

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

**NOTE 6 - CAPITAL ASSETS**

Capital assets activity for the year ended December 31, 2011 was as follows:

	Ending Balance 12/31/10	Additions	Deletions	Ending Balance 12/31/11
Capital Assets, Not Being Depreciated				
Land Easements	\$ 140,829	\$ -	\$ -	\$ 140,829
Construction in Progress	47,382	-	(47,382)	-
Total Capital Assets, Not Being Depreciated	188,211	-	(47,382)	140,829
Capital Assets Being Depreciated				
Water and Sewer Plant	5,781,441	51,156	-	5,832,597
Furniture and Fixtures	14,765	-	-	14,765
Machinery and Equipment	607,011	12,583	-	619,594
Total Capital Assets, Being Depreciated	6,403,217	63,739	-	6,466,956
Less Accumulated Depreciation:				
Water and Sewer Plant	(2,261,733)	(181,431)	-	(2,443,164)
Furniture and Fixtures	(13,637)	(294)	-	(13,931)
Machinery and Equipment	(452,260)	(19,988)	-	(472,248)
Total Accumulated Depreciation	(2,727,630)	(201,713)	-	(2,929,343)
Total Capital Assets Being Depreciated, Net	3,675,587	(137,974)	-	3,537,613
Total Capital Assets, Net	\$ 3,863,798	\$ (137,974)	\$ (47,382)	\$ 3,678,442

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

*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2011*

**NOTE 7 – BUDGETARY ACTIVITY**

Budgetary activity for the year ended December 31, 2011 was as follows:

Budgeted and Actual Receipts			
	Budget	Actual	Variance
Water	\$283,690	\$269,944	(\$13,746)
Sewer	500,819	450,124	(50,695)
<b>Total</b>	<b>\$784,509</b>	<b>\$720,068</b>	<b>(\$64,441)</b>

Budgeted and Actual Budgetary Basis Expenditures			
	Budget	Actual	Variance
Water	\$378,133	\$237,694	\$140,439
Sewer	468,366	436,290	32,076
<b>Total</b>	<b>\$846,499</b>	<b>\$673,984</b>	<b>\$172,515</b>

**NOTE 8 – CAPITAL LEASES**

During the year ended December 31, 2010, the District entered into a capital lease for the acquisition of water meter reading equipment. The lease meets the criteria of capital leases as defined by FASB Statement No. 13, "Accounting for Leases," which defines a capital lease generally as one which transfers benefits and risk of ownership to the lessee at the conclusion of the lease term.

The following is a schedule of the future minimum lease payments required under the capital lease and the present value of the minimum lease payments as of December 31, 2011:

Fiscal Year Ending December 31,	
2012	25,908
2013	25,908
2014	25,908
2015	2,159
Total Minimum Lease Payments	79,883
Less: Amounts Representing Interest	(6,209)
Present Value of Minimum Lease Payments	<b>\$73,674</b>



# Balestra, Harr & Scherer, CPAs, Inc.

Accounting, Auditing and Consulting Services for Federal, State and Local Governments

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## **Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by *Government Auditing Standards***

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

We have audited the financial statements of the business-type activities of the Lake Waynoka Regional Water and Sewer District, Brown County, Ohio (the District), as of and for the year ended December 31, 2011, and have issued our report thereon dated May 25, 2012 wherein we qualified our opinion due to a lack of sufficient, appropriate evidential matter for the amount reported as accounts receivable and charges for service revenue. Except as discussed in the preceding sentence, 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 the Comptroller General of the United States' *Government Auditing Standards*.

### **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 audit procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of opining on the effectiveness of the District's internal control over financial reporting. Accordingly, we have not opined 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 was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. Therefore, we cannot assure that we have identified all deficiencies, significant deficiencies or material weaknesses. However, as described in the accompanying schedule of findings we identified a certain deficiency in internal control over financial reporting, that we consider a material weakness.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and timely corrected. We consider finding 2011-001 described in the accompanying schedule of findings to be a material weakness.

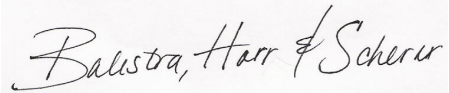
### **Compliance and Other Matters**

As part of reasonably assuring whether the District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*

Members of the Board of Trustees  
Lake Waynoka Regional Water and Sewer District  
Report on Internal Control Over Financial Reporting and on Compliance  
and Other Matters Required by *Government Auditing Standards*  
Page 2

**Compliance and Other Matters (continued)**

We intend this report solely for the information and use of management, the Board of Trustees and others within the District. We intend it for no one other than these specified parties.

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.  
May 25, 2012



**LAKE WAYNOKA REGIONAL WATER AND SEWER DISTRICT  
BROWN COUNTY**

**SCHEDULE OF FINDINGS AND RESPONSES  
FOR THE YEARS ENDED DECEMBER 31, 2011**

**FINDING NUMBER 2011-001**

**Material Weakness – *Controls over Financial Reporting***

The District was unable to provide support for their accounts receivable figure for the fiscal year ended 2011. Additionally, we were not able to perform alternative procedures to assure ourselves that the balance was not misstated. Due to the inability to generate the report from the billing system and our inability to gain assurance that the accounts receivable is not materially misstated, we will qualify our opinion over the receivable and related revenues.

Financial information is vital to an organization's management in its continual effort to effectively make decisions to guide the organization. It is also important for management to receive timely feedback on the reliability of financial information summarized in the financial statements, notes to the financial statements, and schedules used to make these decisions.

The billing system used for water and sewer was created by an individual who is no longer employed by the District. This individual is the only person who is able to create the accounts receivable report. This displays a lack of IT controls and a lack of segregation of duties.

Failure to implement controls over the financial accounting process has resulted in the District's inability to access vital data needed for financial reporting.

The District should establish adequate segregation of duties including cross-training over the various information system applications utilized by the District. Further, the District should establish application and monitoring controls to ensure that financial statement balances are accurately and completely stated.

***Client Response:***

Our current IT employee will either figure out how to make accounts receivable reports on demand or the District will change billing software in the upcoming year.





# Dave Yost • 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  
JULY 26, 2012**