

Lake Waynoka Regional Water and Sewer District

Brown County

Regular Audit

January 1, 2004 through December 31, 2004

Fiscal Year Audited Under GAGAS: 2004

BALESTRA, HARR & SCHERER CPAs, INC.

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Piketon, Ohio 45661

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**Auditor of State
Betty Montgomery**

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

We have reviewed the *Independent Auditor's Report* of Lake Waynoka Regional Water and Sewer District, Brown County, prepared by Balestra, Harr & Scherer CPAs, Inc., for the audit period January 1, 2004 through December 31, 2004. 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.

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

BETTY MONTGOMERY
Auditor of State

August 17, 2005

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Lake Waynoka Regional Water and Sewer District
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For the Year Ended December 31, 2004

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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, 2004, 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 basic 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.

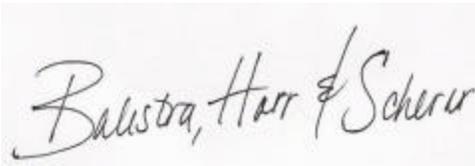
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and each major fund of the District, as of December 31, 2004, and the respective changes in financial position and its cash flows, thereof 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 April 12, 2005, 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.

The Management's Discussion and Analysis on pages 3 through 6 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.

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

As described in Note 9 to the basic financial statements, the District implemented Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, GASB Statement No. 37, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus*, GASB Statement No. 38, *Certain Financial Statement Note Disclosures*, and GASB Interpretation No. 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*.

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

Balestra, Harr & Scherer, CPAs, Inc.

April 12, 2005

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

*Management's Discussion and Analysis
For the Year Ended December 31, 2004*

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 on December 31, 2004 by \$2.9 million. The District's net assets increased by \$80 thousand (2.9%) in 2004.

The District's Operating Revenues increased by \$6 thousand (1.4%) and Operating and Maintenance Expenses increased \$66 thousand (12.0%) in 2004.

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 **Statements of Net Assets** includes all of the District's Assets and Liabilities. These statements provide 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 **Statements of Revenues, Expenses and Changes in Net Assets** provide 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 **Statements of Cash Flows** provide 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.

STATEMENTS OF NET ASSETS

Table 1 summarizes the Statements 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, 2004*

Table 1

	<u>2004</u>	<u>2003 *</u>	<u>Change</u>
Current and Other Assets	\$778,346	\$720,663	\$57,683
Capital Assets	<u>3,816,039</u>	<u>3,861,497</u>	<u>(45,458)</u>
Total Assets	4,594,385	4,582,160	12,225
Long Term Liabilities	1,690,200	1,732,403	(42,203)
Other Liabilities	<u>35,057</u>	<u>61,106</u>	<u>(26,049)</u>
Total Liabilities	1,725,257	1,793,509	(68,252)
Net Assets			
Invested in Capital Assets, Net of Related Debt	2,103,739	2,088,590	15,149
Restricted	100,000	100,000	0
Unrestricted	<u>665,389</u>	<u>600,061</u>	<u>65,328</u>
Total Net Assets	<u><u>\$2,869,128</u></u>	<u><u>\$2,788,651</u></u>	<u><u>\$80,477</u></u>

*Restated to show reclassifications of net assets to conform to GASB 34.

The District's Net Assets increased by \$264 thousand (10.5%) in 2003 and \$80 thousand (2.9%) in 2004. These increases are a result of excess revenues over expenses.

Restricted assets remained the same in 2003 and 2004. Restricted assets are cash that is limited in use as part of the District's Bond covenants.

Unrestricted net assets increased by \$88 thousand (17.2%) in 2003 and \$65 thousand (10.8%) in 2004. Unrestricted net assets may be used without constraints established by bond covenants or other legal requirements. Cash and Cash Equivalents increased \$59 thousand in 2003 and increased \$78 thousand in 2004.

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.

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

*Management's Discussion and Analysis
For the Year Ended December 31, 2004*

Table 2			
	2004	2003 *	Difference
Operating Revenues	\$439,164	\$432,917	\$6,247
Total Operating Revenues	439,164	432,917	6,247
Operating Expenses (Excluding Depreciation)	426,143	366,868	59,275
Depreciation Expense	189,278	182,810	6,468
Total Operating Expenses	615,421	549,678	65,743
Operating Loss	(176,257)	(116,761)	(59,496)
Non-Operating Revenues	346,183	472,309	(126,126)
Non-Operating Expenses	89,449	91,544	(2,095)
Changes in Net Assets	80,477	264,004	(183,527)
Net Assets at Beginning of Year	2,788,651	2,524,647	264,004
Net Assets at End of Year	<u>\$2,869,128</u>	<u>\$2,788,651</u>	<u>\$80,477</u>

*Restated to show reclassifications of net assets to conform to GASB 34.

Operating revenues increased by \$6 thousand (1.4%) in 2004. This increase is due to an increase in the number of customers. The operating expenses (excluding depreciation) increased by \$59 thousand primarily due to increases in the monthly service fees with the property owners' association, increased fluoride expenses for water treatment and increased costs in maintenance of the distribution and collection systems. The decrease in nonoperating revenues is due to less connection fees being received in 2004.

CAPITAL ASSETS

The District had \$5.4 million invested in Capital Assets (before depreciation) at the end of 2004. This amount is an increase of \$144 thousand (2.7%) from the previous year. Virtually all of the increase is due to the installation of grinder pumps at new customer locations to enable these customers to tie into the District's system. Table 3 shows the District's 2004 capital assets as compared to 2003:

Table 3			
	2004	2003	Change Amount
Land Easements	\$140,829	\$140,829	\$0
Water & Sewer Plant	4,808,650	4,669,057	139,593
Machinery & Equipment	429,827	429,827	0
Furniture & Fixtures	20,720	16,493	4,227
Totals Before Accumulated Depreciation	5,400,026	5,256,206	143,820
Accumulated Depreciation	(1,583,987)	(1,394,709)	(189,278)
Net Capital Assets	<u>\$3,816,039</u>	<u>\$3,861,497</u>	<u>(\$45,458)</u>

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

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

*Management's Discussion and Analysis
For the Year Ended December 31, 2004*

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

	<u>2004</u>	<u>2003</u>	<u>Change Amount</u>
Water Revenue Bonds	\$1,712,300	\$1,735,200	(\$22,900)
Ohio Water Development Authority (OWDA)	0	37,707	(37,707)
Total Long Term Debt	<u>1,712,300</u>	<u>1,772,907</u>	<u>(60,607)</u>
Less: Current Maturities	<u>22,100</u>	<u>40,504</u>	<u>(18,404)</u>
Net Total Long Term Debt	<u><u>\$1,690,200</u></u>	<u><u>\$1,732,403</u></u>	<u><u>(\$42,203)</u></u>

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

CASH

Cash and Cash Equivalents were \$586 thousand on December 31, 2004 and \$508 thousand on December 31, 2003. \$100 thousand of these funds are restricted in 2004 and 2003 for specific use. These restricted accounts are for Debt Reserves.

CONTACT INFORMATION

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

LAKE WAYNOKA REGIONAL WATER AND SEWER DISTRICT
BROWN COUNTY

STATEMENT OF NET ASSETS
AS OF DECEMBER 31, 2004

	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
<i>Assets:</i>			
Current Assets:			
Cash and Cash Equivalents	\$66,249	\$419,587	\$485,836
Accounts Receivable (Net Allowance for Doubtful Accounts)	114,271	62,139	176,410
Inventory	0	14,136	14,136
Prepaid Expenses	600	600	1,200
Interest Receivable	84	680	764
Total Current Assets	<u>181,204</u>	<u>497,142</u>	<u>678,346</u>
Noncurrent Assets:			
Restricted Assets:			
Cash and Cash Equivalents Restricted for Debt Service	0	100,000	100,000
Capital Assets Net of Accumulated Depreciation	<u>475,164</u>	<u>3,340,875</u>	<u>3,816,039</u>
Total Assets	656,368	3,938,017	4,594,385
<i>Liabilities:</i>			
Current Liabilities:			
Construction Bonds Payable	0	22,100	22,100
Accounts Payable	1,771	4,005	5,776
Accrued Interest	0	7,181	7,181
Total Current Liabilities	<u>1,771</u>	<u>33,286</u>	<u>35,057</u>
Noncurrent Liabilities:			
Construction Bonds Payable	<u>0</u>	<u>1,690,200</u>	<u>1,690,200</u>
Total Noncurrent Liabilities	<u>0</u>	<u>1,690,200</u>	<u>1,690,200</u>
Total Liabilities	1,771	1,723,486	1,725,257
<i>Net Assets:</i>			
Invested in Capital Assets, Net of Related Debt	475,164	1,628,575	2,103,739
Restricted for Debt Service	0	100,000	100,000
Unrestricted	<u>179,433</u>	<u>485,956</u>	<u>665,389</u>
Total Net Assets	<u><u>\$654,597</u></u>	<u><u>\$2,214,531</u></u>	<u><u>\$2,869,128</u></u>

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

LAKE WAYNOKA REGIONAL WATER AND SEWER DISTRICT
BROWN COUNTY

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2004

	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
<i>Operating Revenues:</i>			
Charges for Services	\$239,813	\$195,881	\$435,694
Miscellaneous	2,681	789	3,470
	<u>242,494</u>	<u>196,670</u>	<u>439,164</u>
<i>Operating Expenses:</i>			
Utilities	10,435	15,804	26,239
Professional Services	8,251	4,268	12,519
Depreciation	43,152	146,126	189,278
Materials and Supplies	28,686	5,817	34,503
Insurance	10,458	10,458	20,916
Repairs and Improvements	25,155	32,465	57,620
Contracted Services	146,747	120,613	267,360
Miscellaneous	5,624	1,362	6,986
	<u>278,508</u>	<u>336,913</u>	<u>615,421</u>
Operating Loss	<u>(36,014)</u>	<u>(140,243)</u>	<u>(176,257)</u>
<i>Nonoperating Revenues:</i>			
Interest Revenue	219	3,643	3,862
Special Assessments	0	106,121	106,121
Connection Fees	43,750	192,450	236,200
	<u>43,969</u>	<u>302,214</u>	<u>346,183</u>
<i>Nonoperating Expenses:</i>			
Interest Expense	<u>0</u>	<u>89,449</u>	<u>89,449</u>
	<u>0</u>	<u>89,449</u>	<u>89,449</u>
Changes in Net Assets	7,955	72,522	80,477
Net Assets, Beginning of Year - Restated	<u>646,642</u>	<u>2,142,009</u>	<u>2,788,651</u>
Net Assets, End of Year	<u>\$654,597</u>	<u>\$2,214,531</u>	<u>\$2,869,128</u>

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

LAKE WAYNOKA REGIONAL WATER AND SEWER DISTRICT
BROWN COUNTY

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2004

	Water	Sewer	Total
<i>Cash Flows from Operating Activities:</i>			
Cash received from customers	\$245,575	\$199,014	\$444,589
Cash received from others	2,681	789	3,470
Cash payments to suppliers for goods and services	(237,304)	(185,073)	(422,377)
Net cash provided by operating activities	10,952	14,730	25,682
<i>Cash Flows from Capital and Related Financing Activities:</i>			
<i>Assessments</i>			
Assessments	0	106,121	106,121
Connection fees	43,750	192,450	236,200
Revenue bond principal payments	0	(22,900)	(22,900)
Revenue bond interest payments	0	(88,639)	(88,639)
OWDA principal payments	(37,707)	0	(37,707)
OWDA interest payments	(907)	0	(907)
Capital outlay	(12,673)	(131,147)	(143,820)
Net cash provided (used) by capital and related financing activities	(7,537)	55,885	48,348
<i>Cash Flows from Investing Activities:</i>			
Interest on cash and investments	219	3,643	3,862
Net increase in cash and cash equivalents	3,634	74,258	77,892
Cash and cash equivalents at beginning of year	62,615	445,329	507,944
Cash and cash equivalents at end of year	\$66,249	\$519,587	\$585,836
<i>Reconciliation of Operating Loss to Net Cash Provided by Operating Activities:</i>			
Operating loss	(\$36,014)	(\$140,243)	(\$176,257)
<i>Adjustments to Reconcile Operating Loss to Net Cash Provided by Operating Activities:</i>			
Depreciation and amortization	43,152	146,126	189,278
<i>Changes in Assets and Liabilities:</i>			
Decrease in accounts receivable	5,762	3,133	8,895
(Increase) in prepaid insurance	(28)	(28)	(56)
Decrease in inventory	0	11,370	11,370
(Decrease) in accounts payable (operating)	(1,920)	(5,628)	(7,548)
Total adjustments	46,966	154,973	201,939
Net cash provided by operating activities	\$10,952	\$14,730	\$25,682

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 Financial Statements
For the Year Ended December 31, 2004*

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. DESCRIPTION OF THE ENTITY

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

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

B. BASIS OF ACCOUNTING

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

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

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

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

C. CASH AND CASH EQUIVALENTS

Deposits consist of demand deposits and restricted certificates of deposit which are valued at cost. The District maintains a cash deposits pool used by all funds.

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

*Notes to the Financial Statements
For the Year Ended December 31, 2004*

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 2004.

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. Depreciation of fixed assets of the District is calculated on the straight line method with the plant, tanks and lines being depreciated at a rate of 3% per year and other equipment and fixtures at a rate of 10% per year. Infrastructure assets are included in water and sewer plant and are depreciated at a rate of 3% per year. The depreciation methods are designed to amortize the costs of the assets over their estimated useful lives. Depreciation expense for 2004 was \$189,278.

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

*Notes to the Financial Statements
For the Year Ended December 31, 2004*

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

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.

I. NET ASSETS

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consist of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors or laws, or regulations of other governments. The District applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

J. RESTRICTED ASSETS

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

J. ACCOUNTS RECEIVABLE

Accounts receivable are presented net of allowance for doubtful accounts. The allowance for doubtful accounts was \$326,349 at December 31, 2004.

NOTE 2 - EQUITY IN POOLED CASH AND CASH EQUIVALENTS

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

	<u>2004</u>
Demand deposits	\$435,836
Certificates of deposits	150,000
Totals	<u>\$585,836</u>

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

*Notes to the Financial Statements
For the Year Ended December 31, 2004*

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

Deposits: The District is required to categorize deposits and investments according to GASB Statement No. 3 *Deposits with Financial Institutions, Investments, and Reverse Repurchase Agreements*. At year-end 2004, the carrying amount of the District's deposits was \$585,836. The bank balance of the District's deposits at December 31, 2004 were \$582,290. Of the bank balance at year end 2004, \$200,000 was covered by federal depository insurance and \$382,290 was covered by collateral held by the pledging bank's trust department but not in the District's name pursuant to Section 135.181, Ohio Revised Code, in collateral pools securing all public funds on deposit with specific depository institutions. Ohio Revised Code Section 135.181 Uniform Depository Act, authorizes pledging of pooled securities in lieu of pledging specific securities.

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

NOTE 3 - CONTRACT

A contract was entered into on July 13, 1988 with the Waynoka Property Owners Association (WPOA) for the WPOA to provide the District with administrative, maintenance, and management staff as well as office supplies, rental, and other fees associated with the maintenance and upkeep of the building housing the District. A contract is signed on a yearly basis between the District and WPOA. WPOA is responsible for all payroll and related deductions and matches. During 2004 and 2003, the District paid \$260,152 and \$255,839, respectively to the WPOA for the contract.

NOTE 4 - LONG-TERM OBLIGATIONS

Debt outstanding at December 31, 2004 was as follows:

	2004 Principal	Interest Rate
Water Revenue Bonds, Series A	\$1,240,900	5.125%
Water Revenue Bonds, Series B	197,400	5.125%
Water Revenue Bonds, Series C	274,000	5.125%
Ohio Water Development Authority (OWDA)	0	3.200%
Totals	\$1,712,300	

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

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

*Notes to the Financial Statements
For the Year Ended December 31, 2004*

NOTE 4 - LONG-TERM OBLIGATIONS – (Continued)

On December 10, 1999 the District obtained a loan from the Ohio Water Development Authority for the purchase and installation of water meters. The loan was in the amount of \$178,634 and for a term of five years with semi-annual payments of \$19,307 at an annual interest rate of 5.32%. The District paid this loan off completely in 2004.

Amortization of the above debt, including interest in the amount of \$1,691,217 is scheduled as follows:

<u>Year Ending December 30</u>	<u>Water Revenue Bonds</u>
2005	\$111,650
2006	111,595
2007	111,675
2008	111,584
2009	111,626
Subsequent	<u>2,845,387</u>
Total	<u>\$3,403,517</u>

NOTE 5 - RISK MANAGEMENT

The District has obtained commercial insurance for the following risks:

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

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

NOTE 6 - CONTINGENT LIABILITIES

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

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

*Notes to the Financial Statements
For the Year Ended December 31, 2004*

NOTE 7 - CAPITAL ASSETS

Capital assets activity for the fiscal year ended December 31, 2004 was as follows:

	<u>Ending Balance 12/31/03</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance 12/31/04</u>
Capital Assets, Not Being Depreciated				
Land Easements	\$140,829	\$0	\$0	\$140,829
Capital Assets Being Depreciated				
Water and Sewer Plant	4,669,057	139,593	0	4,808,650
Furniture and Fixtures	16,493	4,227	0	20,720
Machinery and Equipment	429,827	0	0	429,827
Total Capital Assets, Being Depreciated	<u>5,115,377</u>	<u>143,820</u>	<u>0</u>	<u>5,259,197</u>
Less Accumulated Depreciation:				
Water and Sewer Plant	(1,137,059)	(146,632)	0	(1,283,691)
Furniture and Fixtures	(14,693)	(866)	0	(15,559)
Machinery and Equipment	(242,957)	(41,780)	0	(284,737)
Total Accumulated Depreciation	<u>(1,394,709)</u>	<u>(189,278)</u>	<u>0</u>	<u>(1,583,987)</u>
Total Capital Assets Being Depreciated, Net	<u>3,720,668</u>	<u>(45,458)</u>	<u>0</u>	<u>3,675,210</u>
Total Capital Assets, Net	<u>\$3,861,497</u>	<u>(\$45,458)</u>	<u>\$0</u>	<u>\$3,816,039</u>

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

*Notes to the Financial Statements
For the Year Ended December 31, 2004*

NOTE 8 – CHANGE IN ACCOUNTING PRINCIPLES

GASB Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*, GASB Statement No. 37, *Basic Financial Statements and Management’s Discussion and Analysis for State and Local Governments: Omnibus*, GASB Statement No. 38, *Certain Financial Statement Note Disclosures*, and GASB Interpretation No. 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements* were adopted by the District effective January 1, 2004. GASB 34 creates new basic financial statements for reporting on the District’s financial activities. The financial statements now include statements of net assets, statements of revenues, expenses and changes in net assets, and statements of cash flows all prepared on the accrual basis of accounting. The December 31, 2003 net assets were restated to show the proper classification of retained earnings and contributed capital equity components as nets assets in accordance with GASB 34.

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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, 2004, which collectively comprise the District's basic financial statements as listed in the table of contents, and have issued our report thereon dated April 12, 2005, in which we indicated the District implemented Governmental Accounting Standards Board Statements number 34, 37, 38, and Interpretation 6. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

Compliance and Other Matters

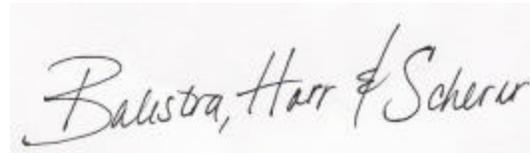
As part of obtaining reasonable assurance about whether the District's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material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

Board of Trustees
Lake Waynoka Regional Water and Sewer District

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of
Financial Statements Performed in Accordance With *Government Auditing Standards*
Page 2

We noted certain matters that we reported to the management of the District in a separate letter dated April 12, 2005.

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

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

Balestra, Harr & Scherer, CPAs, Inc.

April 12, 2005



**Auditor of State
Betty Montgomery**

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**LAKE WAYNOKA REGIONAL WATER & 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
AUGUST 30, 2005**