

**STATE BOARD OF ACCOUNTS**  
**302 West Washington Street**  
**Room E418**  
**INDIANAPOLIS, INDIANA 46204-2765**

AUDIT REPORT

OF

TAYLOR REGIONAL SEWER DISTRICT

HOWARD COUNTY, INDIANA

January 1, 2004 to December 31, 2005



**FILED**  
08/03/2006



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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Treasurer	Candy Jones	05-11-04 to 12-31-06
Financial Clerk	Patricia A. Swavey	06-08-04 to 12-31-06
President of the Board	Russell Adair, Jr.	01-01-04 to 12-31-06



**STATE OF INDIANA**  
AN EQUAL OPPORTUNITY EMPLOYER

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ROOM E418  
INDIANAPOLIS, INDIANA 46204-2765

Telephone: (317) 232-2513  
Fax: (317) 232-4711  
Web Site: www.in.gov/sboa

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS  
AND SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

TO: THE OFFICIALS OF THE TAYLOR REGIONAL SEWER DISTRICT, HOWARD COUNTY, INDIANA

We have audited the accompanying financial statements of the business-type activities and each major fund of the Taylor Regional Sewer District (Sewer District), as of and for the years ended December 31, 2004 and 2005, which collectively comprise the Sewer District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Sewer 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 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.

As discussed in Note I, the Sewer District prepares its financial statements on the prescribed basis of accounting that demonstrates compliance with the cash and investment basis and budget laws of the State of Indiana, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash and investment balances of the business-type activities and each major fund of the Sewer District as of December 31, 2004 and 2005, and the respective cash receipts and cash disbursements during the years then ended on the basis of accounting described in Note I.

In accordance with Government Auditing Standards, we have also issued a report dated June 22, 2006, on our consideration of the Sewer District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. Our report on compliance and on internal control over financial reporting should be read along with this report.

Our audit was performed for the purpose of forming an opinion on the basic financial statements of the Sewer District taken as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS  
AND SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
(Continued)

The Sewer District has not presented Management's Discussion and Analysis or Budgetary Comparison Schedules that accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the basic financial statements.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Sewer District's basic financial statements. The Schedule of Capital Assets and Schedule of Long-term Debt are presented for additional analysis and are not a required part of the basic financial statements. The Schedule of Capital Assets and Schedule of Long-Term Debt have not been subjected to the auditing procedures applied by us in the audit of the basic financial statements and, accordingly, we express no opinion on them.

STATE BOARD OF ACCOUNTS

June 22, 2006



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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND ON INTERNAL CONTROL  
OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

TO: THE OFFICIALS OF THE TAYLOR REGIONAL SEWER DISTRICT, HOWARD COUNTY, INDIANA

We have audited the financial statements of the Taylor Regional Sewer District (Sewer District), as of and for the years ended December 31, 2004 and 2005, and have issued our report thereon dated June 22, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Sewer District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing 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 that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Sewer District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the 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.

We noted other matters involving the internal control Sewer District over financial reporting that we have discussed with the management of the Sewer District on June 22, 2006. These immaterial instances of noncompliance were subsequently communicated to management in a separate letter.

This report is intended solely for the information and use of the Sewer District's management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. In accordance with Indiana Code 5-11-5-1, this report is a part of the public records of the State Board of Accounts and of the office examined.

STATE BOARD OF ACCOUNTS

June 22, 2006

TAYLOR REGIONAL SEWER DISTRICT  
STATEMENT OF ACTIVITIES AND NET ASSETS - CASH AND INVESTMENT BASIS  
For The Year Ended December 31, 2004

<u>Functions/Programs</u>	<u>Disbursements</u>	<u>Program Receipts</u> <u>Capital Grants and Contributions</u>	<u>Net (Disbursement) Receipt and Changes in Net Assets</u>  <u>Business-Type Activities</u>
Primary government:			
Business-type activities:			
Sewer District	\$ 406,656	\$ 499,069	\$ 92,413
General receipts:			
Unrestricted investment earnings			1,157
Change in net assets			93,570
Net assets - beginning			-
Net assets - ending			<u>\$ 93,570</u>
<u>Assets</u>			
Cash and investments			\$ 451
Restricted assets:			
Cash and investments			93,119
Total assets			<u>\$ 93,570</u>
<u>Net Assets</u>			
Restricted for:			
Construction			\$ 93,119
Unrestricted			451
Total net assets			<u>\$ 93,570</u>

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

TAYLOR REGIONAL SEWER DISTRICT  
STATEMENT OF ASSETS AND FUND BALANCE AND  
RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCE - CASH AND INVESTMENT BASIS  
PROPRIETARY FUND  
As of and for the Year Ended December 31, 2004

Operating disbursements:	
Equipment and capital improvements	\$ 329,909
Administration and general	1,142
Contractual services	69,153
Insurance disbursements	1,631
Other	<u>3,495</u>
Total operating disbursements	<u>405,330</u>
Deficiency of operating receipts under operating disbursements	<u>(405,330)</u>
Nonoperating receipts (disbursements):	
Interest and investment receipts	1,157
Interest and investment disbursement	<u>(1,326)</u>
Total nonoperating disbursements	<u>(169)</u>
Deficiency of receipts under disbursements and nonoperating disbursements	(405,499)
Loan proceeds	<u>499,069</u>
Excess of contributions over disbursements	93,570
Cash and investment fund balance - beginning	<u>-</u>
Cash and investment fund balance - ending	<u>\$ 93,570</u>
<u>Cash and Investment Assets - December 31</u>	
Cash and investments	\$ 451
Restricted assets:	
Cash and investments	<u>93,119</u>
Total cash and investment assets - December 31	<u>\$ 93,570</u>
<u>Cash and Investment Fund Balance - December 31</u>	
Restricted for:	
Construction	\$ 93,119
Unrestricted	<u>451</u>
Total cash and investment fund balance - December 31	<u>\$ 93,570</u>

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

TAYLOR REGIONAL SEWER DISTRICT  
STATEMENT OF ACTIVITIES AND NET ASSETS - CASH AND INVESTMENT BASIS  
For The Year Ended December 31, 2005

<u>Functions/Programs</u>	<u>Disbursements</u>	<u>Program Receipts</u>		<u>Net (Disbursement) Receipt and Changes in Net Assets</u>
		Charges for Services	Capital Grants and Contributions	Business-Type Activities
Primary government:				
Business-type activities:				
Sewer District	\$ 314,812	\$ 69,123	\$ 705,703	\$ 460,014
General receipts:				
Unrestricted investment earnings				4,148
Change in net assets				464,162
Net assets - beginning				93,570
Net assets - ending				<u>\$ 557,732</u>
<u>Assets</u>				
Restricted assets:				
Cash and investments				\$ 356,546
Cash with fiscal agent				<u>201,186</u>
Total assets				<u>\$ 557,732</u>
<u>Net Assets</u>				
Restricted for:				
Debt service				\$ 60,036
Construction				<u>497,696</u>
Total net assets				<u>\$ 557,732</u>

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

TAYLOR REGIONAL SEWER DISTRICT  
STATEMENT OF ASSETS AND FUND BALANCE AND  
RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCE - CASH AND INVESTMENT BASIS  
PROPRIETARY FUND  
As of and for the Year Ended December 31, 2005

Operating receipts:	
Flat rate receipts	\$ <u>69,123</u>
Operating disbursements:	
Equipment and capital improvements	283,095
Administration and general	2,888
Purchased power	469
Contractual services	8,303
Insurance disbursements	1,631
Other	<u>1,402</u>
Total operating disbursements	<u>297,788</u>
Deficiency of operating receipts under operating disbursements	<u>(228,665)</u>
Nonoperating receipts (disbursements):	
Interest and investment receipts	4,148
Interest and investment disbursement	<u>(17,024)</u>
Total nonoperating disbursements	<u>(12,876)</u>
Deficiency of receipts under disbursements and nonoperating disbursements	(241,541)
Capital contributions	<u>705,703</u>
Excess of contributions over disbursements	464,162
Cash and investment fund balance - beginning	<u>93,570</u>
Cash and investment fund balance - ending	<u>\$ 557,732</u>
<u>Cash and Investment Assets - December 31</u>	
Restricted assets:	
Cash and investments	\$ 356,546
Cash with fiscal agent	<u>201,186</u>
Total cash and investment assets - December 31	<u>\$ 557,732</u>
<u>Cash and Investment Fund Balance - December 31</u>	
Restricted for:	
Debt service	\$ 60,036
Construction	<u>497,696</u>
Total cash and investment fund balance - December 31	<u>\$ 557,732</u>

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

TAYLOR REGIONAL SEWER DISTRICT  
NOTES TO FINANCIAL STATEMENTS

I. Summary of Significant Accounting Policies

A. Reporting Entity

The Sewer District was established under the laws of the State of Indiana. The Sewer District operates under an appointed governing board.

The Sewer District's financial reporting entity is composed of the following:

Primary Government

In determining the financial reporting entity, the Sewer District complies with the provisions of GASB Statement No. 14, *The Financial Reporting Entity*.

B. Government-Wide and Fund Financial Statements

Government-Wide Financial Statements

The Statement of Activities and Net Assets – Cash and Investment Basis display information about the reporting government as a whole. It includes all funds of the reporting entity except for fiduciary funds. The statement distinguishes between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services. The Sewer District has business-type activities only.

Fund Financial Statements

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitutes its assets, liabilities, fund equity, receipts, and disbursements. Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. The Sewer District does not have any governmental or fiduciary funds. Major individual enterprise funds are reported as separate columns in the fund financial statements. The Sewer District only has one enterprise fund.

The Sewer District reports the following major proprietary fund:

The Sewer District Fund accounts for receipts from sewer customers and capital contributions and disbursements for operating activities and capital additions and improvements.

C. Measurement Focus and Basis of Accounting

The government-wide and proprietary fund financial statements are reported using the basis of accounting that demonstrates compliance with the cash and investment basis and budget laws of the State of Indiana, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Receipts are recorded when received and disbursements are recorded when paid.

TAYLOR REGIONAL SEWER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

The cash and investment basis of accounting differs from accounting principles generally accepted in the United States of America in that receipts are recognized when received in cash rather than when earned and disbursements are recognized when paid rather than when a liability is incurred. Investment transactions are not presented on the financial statements.

If the Sewer District utilized the basis of accounting recognized as generally accepted, the fund financial statements for governmental funds would use the modified accrual basis of accounting, while the fund financial statements for proprietary fund types would use the accrual basis of accounting. All government-wide financials would be presented on the accrual basis of accounting.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the enterprise fund statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their enterprise funds, subject to this same limitation. The Sewer District has elected not to follow subsequent private-sector guidance.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

Proprietary funds are used to account for activities similar to those found in the private sector, where the determination of net income is necessary or useful to sound financial administration. Goods or services from such activities are provided to people outside the government (enterprise funds).

D. Assets and Cash and Investment Balances

1. Cash and Investments

Investments are stated at cost. Any changes in fair value of the investments are reported as interest receipts in the year of the sale of the investment.

2. Capital Assets

Capital assets arising from cash transactions acquired for use in proprietary fund operations are accounted for as capital outlay disbursements of the fund upon acquisition.

3. Long-Term Debt

Long-term debt arising from cash basis transactions of the proprietary fund is not reported as liabilities in the basic financial statements.

4. Equity Classification

Government-Wide Statements

Equity is classified as net assets and displayed in two components:

- a. Restricted net assets – Consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws and regulations of other governments (2) law through constitutional provisions or enabling legislations.

TAYLOR REGIONAL SEWER DISTRICT  
 NOTES TO FINANCIAL STATEMENTS  
 (Continued)

b. Unrestricted net assets – All other net assets that do not meet the definition of "restricted."

It is the Sewer District's policy to first use restricted net assets prior to the use of unrestricted net assets when a disbursement is incurred for purposes for which both restricted and unrestricted net assets are available.

Fund Financial Statements

Proprietary fund equity is classified the same as in the government-wide statements.

E. Receipts and Disbursements

1. Program Receipts

Amounts reported as program receipts include (1) charges to customers or applicants for goods, services, or privileges provided, (2) operating grants and contributions, and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general receipts rather than as program receipts.

2. Operating Receipts and Disbursements

Proprietary funds are used to account for activities similar to those found in the private sector, where the determination of net income is necessary or useful to sound financial administration. Goods or services from such activities are provided to people outside the government (enterprise funds).

II. Detailed Notes on All Funds

A. Deposits and Investments

1. Deposits

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. Indiana Code 5-13-8-1 allows a political subdivision of the State of Indiana to deposit public funds in a financial institution only if the financial institution is a depository eligible to receive state funds; and has a principal office or branch that qualifies to receive public funds of the political subdivision. Balances were insured by the Federal Deposit Insurance Corporation or the Public Deposit Insurance Fund, which covers all public funds held in approved depositories.

2. Investments

Authorization for investment activity is stated in Indiana Code 5-13. As of December 31, 2005, the Sewer District had the following investments:

<u>Investment Type</u>	<u>Primary Government Market Value</u>
Mutual Funds	\$ <u>60,036</u>

TAYLOR REGIONAL SEWER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

Investment Policies

Indiana Code 5-13-9 authorizes the Sewer District to invest in securities backed by the full faith and credit of the United States Treasury or fully guaranteed by the United States of America and issued by the United States Treasury, a federal agency, a federal instrumentality, or a federal government sponsored enterprise. Indiana Code also authorizes the unit to invest in securities fully guaranteed and issued by a federal agency, a federal instrumentality or a federal government sponsored enterprise. These investments are required by statute to have a stated final maturity of not more than two years.

Indiana Code also provides for investment in money market mutual funds that are in the form of securities of or interest in an open-end, no-load, management-type investment company or investment trust registered under the provision of the federal Investment Company Act of 1940, as amended. Investments in money market mutual funds may not exceed 50% of the funds held by the Sewer District and available for investment. The portfolio of an investment company or investment trust used must be limited to direct obligations of the United States of America, obligations issued by a federal agency, a federal instrumentality, or a federal government sponsored enterprise; or repurchase agreements fully collateralized by direct obligations of the United States of America or obligations issued by a federal agency, a federal instrumentality, or a federal government sponsored enterprise. The form of securities of or interest in an investment company or investment trust must be rated as AAA, or its equivalent by Standard and Poor's Corporation or its successor or Aaa, or its equivalent, by Moody's Investors Service, Inc., or its successor. The form of securities in an investment company or investment trust should have a stated final maturity of one day.

Additionally, the Sewer District may enter into repurchase agreements with depositories designated by the State Board of Finance as depositories for state deposits involving the unit's purchase and guaranteed resale of any interest-bearing obligations issued or fully insured or guaranteed by the United States of America, a United States of America government agency, an instrumentality of the United States of America, or a federal government sponsored enterprise. The repurchase agreement is considered to have a stated final maturity of one day. This agreement must be fully collateralized by interest-bearing obligations as determined by their current market value.

Investment Custodial Credit Risk

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. The Sewer District does not have a formal investment policy for custodial credit risk for investments. At December 31, 2005, the Sewer District held investments in mutual funds in the amount of \$60,036. These investments were held by the counterparty's trust department or agent but not in the Sewer District's name.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Sewer District must follow state statute and limit the stated final maturities of the investments to no more than two years.

TAYLOR REGIONAL SEWER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

Investment Type	Investment Maturities (in Years) Less Than 1
Mutual Funds	\$ <u>60,036</u>

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The distribution of securities with credit ratings is summarized below.

Rating	Sewer District's Investments Mutual Funds
Unrated	\$ <u>60,036</u>

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The Sewer District does not have a policy in regard to concentration of credit risk. United States of America government and United States of America governmental agency securities are exempt from this policy requirement.

3. State Revolving Loan Fund

Under the terms of the State Revolving Loan Fund, revenue bonds were purchased by the Indiana Bond Bank, the proceeds of which were used to finance the construction of wastewater treatment facilities and collection system. Funds were loaned to the Sewer District as construction costs accrued to the maximum allowed. Construction costs, upon request by the Sewer District and approval by the State Budget Agency, were paid from a trust account established by the State Revolving Loan Fund. The 2004 loan established a maximum draw of \$3,905,600, of which \$3,905,600 was actually borrowed. The outstanding principal balance of \$3,905,600 was amortized over a period of 20 years.

III. Other Information

Risk Management

The Sewer District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; job related illnesses or injuries to employees; and natural disasters.

TAYLOR REGIONAL SEWER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

The risks of torts and errors and omissions were covered by commercial insurance from independent third parties. Settled claims from these risks have not exceeded commercial insurance coverage for the past three years. There were no significant reductions in insurance by major category of risk. Risk financing is not utilized for the other risks of loss. Instead, the Sewer District records as a disbursement any replacement items purchased.

TAYLOR REGIONAL SEWER DISTRICT  
 SUPPLEMENTARY INFORMATION  
 SCHEDULE OF CAPITAL ASSETS  
 For The Year Ended December 31, 2005

Capital assets are reported at actual or estimated historical cost based on appraisals or deflated current replacement cost. Contributed or donated assets are reported at estimated fair value at the time received.

General infrastructure assets completed in the current and prior year have been reported. Prior to 2004, the Sewer District did not have any general infrastructure assets, therefore retroactive reporting would not be applicable.

<u>Primary Government</u>	<u>Ending Balance</u>
Business-type activities:	
Capital assets, not being depreciated:	
Machinery and equipment	\$ 11,644
Construction in progress	<u>4,444,289</u>
 Total governmental activities, capital assets not being depreciated	 <u>\$ 4,455,933</u>

TAYLOR REGIONAL SEWER DISTRICT  
 SUPPLEMENTARY INFORMATION  
 SCHEDULE OF LONG-TERM DEBT  
 For The Year Ended December 31, 2005

	<u>Ending Balance</u>	<u>Due Within One Year</u>
Business-type activities:		
Sewer District:		
Wastewater state revolving loan	<u>\$ 3,905,600</u>	<u>\$ -</u>

TAYLOR REGIONAL SEWER DISTRICT  
AUDIT RESULTS AND COMMENTS

DELINQUENT SEWER ACCOUNTS

Delinquent sewer fees and penalties had not been recorded with the County Recorder nor were they certified to the County Auditor which would result in a lien against the property. The Treasurer's own account is included in these delinquent accounts. At December 31, 2005, the Treasurer was 240 days delinquent with a balance due of \$139. As of June 13, 2006, the Treasurer was 120 days delinquent with a balance of \$210.

Indiana Code 13-26-13-2 states: "The officer of the district who is charged with the collection of the rates and charges shall enforce payment of the rates or charges. The officer shall, not more than two (2) times in a year, prepare a list of the delinquent rates or charges, including the amount of the penalty, that are enforceable under this chapter. The list must include the following:

- (1) The name of each owner of each lot or parcel of real property on which the rates or charges have become delinquent.
- (2) The description of the premises as shown by the records of the office of the county auditor.
- (3) The amount of the rates or charges, together with the amount of the penalty."

OVERDRAWN CASH BALANCE

The operating fund had an overdrawn cash balance of \$25,256 at December 31, 2005. This deficit was a result of operating expenses, including required debt service transfers, exceeding operating revenues collected for the year 2005. The Sewer District did not begin billing and collecting for sewer services until May 2005.

The cash balance of any fund may not be reduced below zero. Routinely overdrawn funds could be an indicator of serious financial problems which should be investigated by the governmental unit. (Accounting and Uniform Guidelines for Special Districts, Chapter 10)

FORM 1099 NOT ISSUED

Form 1099 was not prepared for all contracted employees for 2004 and 2005.

Political subdivisions are required to comply with all grant agreements, rules, regulations, bulletins, directives, letters, letter rulings, and filing requirements concerning reports and other procedural matters of federal and state agencies, including opinions of the Attorney General of the State of Indiana, and court decisions. Governmental units should file accurate reports required by federal and state agencies. Noncompliance may require corrective action. (Accounting and Uniform Compliance Guidelines Manual for Special Districts, Chapter 10)

TAYLOR REGIONAL SEWER DISTRICT  
AUDIT RESULTS AND COMMENTS  
(Continued)

BOARD MINUTES

Minutes of the Sewer District Board were not presented for February, March, or October of 2004. In addition, minutes that were provided did not always contain required information.

Indiana Code 5-14-1-1.5-4 states in part:

"(b) As the meeting progresses, the following memoranda shall be kept:

- (1) The date, time, and place of meeting.
- (2) The members of the governing body recorded as either present or absent.
- (3) The general substance of all matters proposed, discussed, or decided.
- (4) A record of all votes taken, by individual members if there is a roll call.
- (5) Any additional information required under IC 5-1.5-2-2.5 or IC 20-12-63-7.

(c) The memoranda are to be available within a reasonable period of time after the meeting for the purpose of informing the public of the governing body's proceedings."

The governing board is charged with the duty to preserve, keep, maintain, or file all the official records of the political subdivision pursuant to IC 5-15-1-1. The final decision as to the destruction or disposition of such records rests with the local public records commission. A local public records commission is established in each county pursuant to IC 5-15-6-1. (Accounting and Uniform Guidelines for Special Districts, Chapter 12)

PRESCRIBED FORMS

Accounts payable vouchers (Form 301S) were not prepared and attached to supporting documentation. Additionally, prescribed checks (Forms 353 or 356) were not in use.

Officials and employees are required to use State Board of Accounts prescribed or approved forms in the manner prescribed. (Accounting and Uniform Compliance Guidelines Manual for Special Districts, Chapter 10)

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SUPPLEMENTAL AUDIT OF  
FEDERAL AWARDS



**STATE OF INDIANA**  
AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS  
302 WEST WASHINGTON STREET  
ROOM E418  
INDIANAPOLIS, INDIANA 46204-2765

Telephone: (317) 232-2513  
Fax: (317) 232-4711  
Web Site: www.in.gov/sboa

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS  
APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER  
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

TO: THE OFFICIALS OF THE TAYLOR REGIONAL SEWER DISTRICT, HOWARD COUNTY, INDIANA

Compliance

We have audited the compliance of the Taylor Regional Sewer District (Sewer District) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the years ended December 31, 2004 and 2005. The Sewer District's major federal program is identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Sewer District's management. Our responsibility is to express an opinion on the Sewer District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Sewer District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Sewer District's compliance with those requirements.

In our opinion, the Sewer District complied in all material respects with the requirements referred to above that are applicable to each of its major federal programs for the years ended December 31, 2004 and 2005.

Internal Control Over Compliance

The management of the Sewer District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Sewer District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS  
APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER  
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133  
(Continued)

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program 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 compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the Sewer District's management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. In accordance with Indiana Code 5-11-5-1, this report is a part of the public records of the State Board of Accounts and of the office examined.

STATE BOARD OF ACCOUNTS

June 22, 2006

TAYLOR REGIONAL SEWER DISTRICT  
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
 For The Years Ended December 31, 2004 and 2005

Federal Grantor Agency/Pass-Through Entity Program Title/Project Title	Federal CFDA Number	Pass-Through Entity (or Other) Identifying Number	Total Federal Awards Expended 12-31-04	Total Federal Awards Expended 12-31-05
<u>U.S. ENVIRONMENTAL PROTECTION AGENCY</u>				
Pass-Through Indiana Department of Environmental Management Capitalization Grants for Clean Water State Revolving Funds Clean Water State Revolving Fund Loan Program	66.458	CS-18230801	\$ 287,989	\$ 1,410,684

The accompanying notes are an integral part of the Schedule of Expenditures of Federal Awards.

TAYLOR REGIONAL SEWER DISTRICT  
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

I. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the Taylor Regional Sewer District (Sewer District) and is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Accordingly, the amount of federal awards expended is based on when the activity related to the award occurs. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

Circular A-133 requires an annual audit of nonfederal entities expending a total amount of federal awards equal to or in excess of \$500,000 in any fiscal year unless by constitution or statute a less frequent audit is required. In accordance with the Indiana Code (IC 5-11-1 et seq.), audits of sewer districts shall be conducted biennially. Such audits shall include both years within the biennial period.

II. Loans Outstanding

The Sewer District had the following loan balances, with continuing federal compliance requirements, outstanding at December 31, 2004 and 2005. These loan balances outstanding are also included in the federal expenditures presented in the schedule.

Program Title	Federal CFDA Number	2004	2005
Capitalization Grants for Clean Water State Revolving Loan Funds	66.458	\$ 287,989	\$ 1,698,673

TAYLOR REGIONAL SEWER DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section I – Summary of Auditor's Results

Financial Statements:

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

Material weaknesses identified?	no
Reportable conditions identified that are not considered to be material weaknesses?	none reported

Noncompliance material to financial statements noted? no

Federal Awards:

Internal control over major programs:

Material weaknesses identified?	no
Reportable conditions identified that are not considered to be material weaknesses?	none reported

Type of auditor's report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? no

Identification of Major Programs:

CFDA Number	Name of Federal Program or Cluster
66.458	Capitalization Grants for Clean Water State Revolving Funds

Dollar threshold used to distinguish between Type A and Type B programs: \$300,000

Auditee qualified as low-risk auditee? no

Section II – Financial Statement Findings

No matters are reportable.

Section III – Federal Award Findings and Questioned Costs

No matters are reportable.

TAYLOR REGIONAL SEWER DISTRICT  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

No matters are reportable.

TAYLOR REGIONAL SEWER DISTRICT  
EXIT CONFERENCE

The contents of this report were discussed on June 22, 2006, with Russell Adair, Jr., President of the Board; and Patricia A. Swavey, Financial Clerk. The officials concurred with our findings.