

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

AUDIT REPORT

OF

DELAWARE COUNTY REGIONAL WASTEWATER DISTRICT

DELAWARE COUNTY, INDIANA

January 1, 2004 to December 31, 2005



**FILED**  
08/25/2006



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OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Office Manager	Pamela Shinn	01-01-04 to 12-31-06
Treasurer	Howard (Mac) Clary	01-01-04 to 12-31-06
President of the Board	Joe Evans Nancy Williams	01-01-04 to 12-31-04 01-01-05 to 12-31-06



**STATE OF INDIANA**  
AN EQUAL OPPORTUNITY EMPLOYER

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

TO: THE OFFICIALS OF THE DELAWARE COUNTY REGIONAL  
WASTEWATER DISTRICT, DELAWARE COUNTY, INDIANA

We have audited the accompanying financial statements of the business-type activities of the Delaware County Regional Wastewater District (District), as of and for the years ended December 31, 2004 and 2005. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion 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 opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the District as of December 31, 2004, and 2005, and the respective changes in financial position and cash flows, where applicable, thereof and for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The 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.

In accordance with Government Auditing Standards, we have also issued our report dated August 8, 2006, 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 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 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.

STATE BOARD OF ACCOUNTS

August 8, 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 DELAWARE COUNTY REGIONAL  
WASTEWATER DISTRICT, DELAWARE COUNTY, INDIANA

We have audited the financial statements of the Delaware County Regional Wastewater District (District), as of and for the years ended December 31, 2004, and 2005, and have issued our report thereon dated August 8, 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 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 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.

This report is intended solely for the information and use of the 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

August 8, 2006

DELAWARE COUNTY REGIONAL WASTEWATER DISTRICT  
STATEMENT OF NET ASSETS  
December 31, 2004 And 2005

<u>Assets</u>	<u>2004</u>	<u>2005</u>
Current assets:		
Cash and cash equivalents	\$ 141,074	\$ 170,769
Investments	14,826	16,964
Accounts receivable (net of allowance)	485,296	353,684
Prepaid items	<u>124,372</u>	<u>126,474</u>
Total current assets	<u>765,568</u>	<u>667,891</u>
Noncurrent assets:		
Restricted cash, cash equivalents and investments:		
Depreciation cash and investments	328,984	335,799
Bond and interest cash and investments	221,667	199,856
Construction cash and investments	203,326	101,106
Debt service reserve cash and investments	715,932	779,356
Improvement/expansion cash and investments	145,200	146,480
Retainage cash	155,769	162,771
Interest receivable	<u>16,770</u>	<u>3,837</u>
Total restricted assets	<u>1,787,648</u>	<u>1,729,205</u>
Deferred debits:		
Unamortized bond issuance costs	<u>150,451</u>	<u>142,907</u>
Capital assets:		
Land, improvements to land and construction in progress	1,477,980	196,540
Other capital assets (net of accumulated depreciation)	<u>16,219,478</u>	<u>17,607,532</u>
Total capital assets	<u>17,697,458</u>	<u>17,804,072</u>
Total noncurrent assets	<u>19,635,557</u>	<u>19,676,184</u>
Total assets	<u>20,401,125</u>	<u>20,344,075</u>
<u>Liabilities</u>		
Current liabilities:		
Accounts payable	42,996	49,325
Retainage payable	155,769	162,771
Wages and benefits payable	1,197	4,004
Current liabilities payable from restricted assets:		
Revenue bonds payable	26,000	27,000
Accrued interest payable	<u>33,750</u>	<u>32,450</u>
Total current liabilities	<u>259,712</u>	<u>275,550</u>
Noncurrent liabilities:		
Revenue bonds payable (net of unamortized discounts and deferred amount on refunding)	1,270,000	1,211,000
Loans payable	<u>13,114,541</u>	<u>13,040,145</u>
Total noncurrent liabilities	<u>14,384,541</u>	<u>14,251,145</u>
Total liabilities	<u>14,644,253</u>	<u>14,526,695</u>
<u>Net Assets</u>		
Invested in capital assets, net of related debt	3,253,167	3,493,477
Restricted for purchase of capital assets and plant expansion	677,510	583,385
Restricted for debt service	937,599	979,212
Restricted for other purposes	172,539	166,608
Unrestricted	<u>716,057</u>	<u>594,698</u>
Total net assets	<u>\$ 5,756,872</u>	<u>\$ 5,817,380</u>

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

DELAWARE COUNTY REGIONAL WASTEWATER DISTRICT  
STATEMENT OF REVENUES, EXPENSES AND OTHER CHANGES IN FUND NET ASSETS  
As Of And For The Years Ended December 31, 2004 And 2005

	<u>2004</u>	<u>2005</u>
Operating revenues:		
Flat rate revenues	\$ 1,792,627	\$ 1,994,752
Other	<u>58,406</u>	<u>62,766</u>
Total operating revenues	<u>1,851,033</u>	<u>2,057,518</u>
Operating expenses:		
Collection system - operations and maintenance	136,137	321,346
Treatment and disposal - operations and maintenance	381,574	561,999
Customer accounts	49,254	55,534
Administration and general	184,847	180,936
Depreciation and amortization	<u>140,163</u>	<u>395,768</u>
Total operating expenses	<u>891,975</u>	<u>1,515,583</u>
Operating income	<u>959,058</u>	<u>541,935</u>
Nonoperating revenues (expenses):		
Interest and investment revenue	45,805	56,476
Interest expense	<u>(542,132)</u>	<u>(537,903)</u>
Total nonoperating expenses	<u>(496,327)</u>	<u>(481,427)</u>
Change in net assets	462,731	60,508
Total net assets - beginning	<u>5,294,141</u>	<u>5,756,872</u>
Total net assets - ending	<u>\$ 5,756,872</u>	<u>\$ 5,817,380</u>

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

DELAWARE COUNTY REGIONAL WASTEWATER DISTRICT  
STATEMENT OF CASH FLOWS  
ENTERPRISE FUNDS  
As Of And For The Years Ended December 31, 2004 And 2005

	<u>2004</u>	<u>2005</u>
Cash flows from operating activities:		
Receipts from customers and users	\$ 1,654,272	\$ 2,189,130
Payments to suppliers and contractors	(1,025,025)	(1,065,408)
Payments to employees	(46,362)	(40,371)
	<u>582,885</u>	<u>1,083,351</u>
Net cash provided by operating activities		
Cash flows from capital and related financing activities:		
Acquisition and construction of capital assets	(3,682,353)	(494,838)
Principal paid on capital debt	(2,305,000)	(533,000)
Interest paid on capital debt	(534,632)	(539,203)
Proceeds from capital debt	3,780,910	400,604
	<u>(2,741,075)</u>	<u>(1,166,437)</u>
Net cash used by capital and related financing activities		
Cash flows from investing activities:		
Proceeds from sales and maturities of investments	360,373	-
Purchase of investments	(3,768)	(2,138)
Interest received	29,420	69,409
	<u>386,025</u>	<u>67,271</u>
Net cash provided by investing activities		
Net increase in cash and cash equivalents	(1,772,165)	(15,815)
Cash and cash equivalents, January 1	<u>3,684,117</u>	<u>1,911,952</u>
Cash and cash equivalents, December 31	<u>\$ 1,911,952</u>	<u>\$ 1,896,137</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 959,058	\$ 541,935
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization expense	140,163	395,768
(Increase) decrease in assets:		
Accounts receivable	(196,761)	131,612
Prepaid items	5,275	(2,102)
Increase (decrease) in liabilities:		
Accounts payable	3,748	6,329
Retainage payable	(60,054)	7,002
Wages payable	(3,407)	2,807
Contract payable	(265,137)	-
Total adjustments	<u>(376,173)</u>	<u>541,416</u>
Net cash provided by operating activities	<u>\$ 582,885</u>	<u>\$ 1,083,351</u>

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

DELAWARE COUNTY REGIONAL WASTEWATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS

I. Summary of Significant Accounting Policies

A. Reporting Entity

The Delaware County Regional Wastewater District (District) was established pursuant to Indiana Code 13-26. The District is governed by a Board of Trustees and provides the following service: wastewater treatment.

The accompanying financial statements present the activities of the District. There are no significant component units which require inclusion.

B. Fund Financial Statements

Business-type activity financial statements consist of the Statement of Net Assets; Statement of Revenues, Expenses, and Changes in Fund Net Assets; and the Statement of Cash Flows. Business-type activities rely to a significant extent on fees and charges for support.

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The accounts of the business-type activity are maintained and the financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recognized when incurred.

Proprietary funds distinguish operating revenues from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise funds are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

D. Assets, Liabilities and Net Assets or Equity

1. Deposits and Investments

The District's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

State statute (IC 5-13-9) authorizes the District to invest in securities, including but not limited to, federal government securities, repurchase agreements, and certain money market mutual funds. Certain other statutory restrictions apply to all investments made by local governmental units.

Nonparticipating certificates of deposit, demand deposits and similar nonparticipating negotiable instruments that are not reported as cash and cash equivalents are reported as investments at cost.

Investment income, including changes in the fair value of investments, is reported as revenue in the operating statement.

DELAWARE COUNTY REGIONAL WASTEWATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

2. Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

3. Restricted Assets

Certain proceeds of the enterprise fund revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the statement of net assets balance sheet because their use is limited by bond covenants and of actions of the governing body.

4. Capital Assets

Capital assets, which include property, plant, and equipment, are reported in the financial statements.

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.

Capitalization thresholds have not been established by the governing body, depreciation methods and estimated useful lives of capital assets are as follows:

	Depreciation Method	Rate
Buildings and improvements	Composite	2%
Machinery and Equipment	Composite	10%
Transportation Equipment	Composite	10%
Wastewater distribution and collection systems	Composite	2%

For depreciated assets, the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. The interest incurred during the current audit period was forgiven as part of the grant agreement.

5. Compensated Absences

- a. Sick/personal Leave – District employees earn sick/personal leave at the rate of 6 days per year. Unused sick/personal leave may be accumulated to a maximum of 20 days. Accumulated sick/personal leave is not paid to employees.
- b. Vacation Leave – District employees earn vacation leave at rates from 5 days to 20 days per year based upon the number of years of service. Vacation leave does not accumulate.

No liability is reported for vacation and sick/personal leave.

DELAWARE COUNTY REGIONAL WASTEWATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

6. Long-Term Obligations

Long-term debt and other long-term obligations are reported as liabilities in the statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

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. The bank 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

Investment Policies

Authorization for investment activity is stated in Indiana Code 5-13. During the audit period the District's investments were all certificates of deposit which are unrated.

B. Capital Assets

Capital asset activity for the years ended December 31, 2004 and 2005, was as follows:

<u>2004</u>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets, not being depreciated:				
Land	\$ 196,540	\$ -	\$ -	\$ 196,540
Construction in progress	<u>10,012,703</u>	<u>3,682,353</u>	<u>12,413,616</u>	<u>1,281,440</u>
Total capital assets, not being depreciated	<u>10,209,243</u>	<u>3,682,353</u>	<u>12,413,616</u>	<u>1,477,980</u>
Capital assets, being depreciated:				
Improvements other than buildings and distribution and collection systems	6,779,540	12,413,616	-	19,193,156
Buildings	15,000	-	-	15,000
Transportation equipment	8,048	-	-	8,048
Machinery and equipment	<u>32,551</u>	<u>-</u>	<u>-</u>	<u>32,551</u>
Totals	<u>6,835,139</u>	<u>12,413,616</u>	<u>-</u>	<u>19,248,755</u>

DELAWARE COUNTY REGIONAL WASTEWATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

<u>2004 (continued)</u>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets, being depreciated (continued):				
Less accumulated depreciation for:				
Improvements other than buildings and distribution and collection systems	2,870,573	135,591	-	3,006,164
Buildings	1,500	300	-	1,800
Transportation equipment	805	805	-	1,610
Machinery and equipment	<u>16,448</u>	<u>3,255</u>	-	<u>19,703</u>
Totals	<u>2,889,326</u>	<u>139,951</u>	-	<u>3,029,277</u>
Total capital assets, being depreciated, net	<u>3,945,813</u>	<u>12,273,665</u>	-	<u>16,219,478</u>
Total capital assets, net	<u>\$ 14,155,056</u>	<u>\$ 15,956,018</u>	<u>\$ 12,413,616</u>	<u>\$ 17,697,458</u>
 <u>2005</u>				
Capital assets, not being depreciated:				
Land	\$ 196,540	\$ -	\$ -	\$ 196,540
Construction in progress	<u>1,281,440</u>	<u>490,052</u>	<u>1,771,492</u>	<u>-</u>
Total capital assets, not being depreciated	<u>1,477,980</u>	<u>490,052</u>	<u>1,771,492</u>	<u>196,540</u>
Capital assets, being depreciated:				
Improvements other than buildings and distribution and collection systems	19,193,156	1,776,278	-	20,969,434
Buildings	15,000	-	-	15,000
Transportation equipment	8,048	-	-	8,048
Machinery and equipment	<u>32,551</u>	<u>-</u>	<u>-</u>	<u>32,551</u>
Totals	<u>19,248,755</u>	<u>1,776,278</u>	-	<u>21,025,033</u>
Less accumulated depreciation for:				
Improvements other than buildings and distribution and collection systems	3,006,164	383,863	-	3,390,027
Buildings	1,800	300	-	2,100
Transportation equipment	1,610	804	-	2,414
Machinery and equipment	<u>19,703</u>	<u>3,257</u>	<u>-</u>	<u>22,960</u>
Totals	<u>3,029,277</u>	<u>388,224</u>	-	<u>3,417,501</u>
Total capital assets, being depreciated, net	<u>16,219,478</u>	<u>1,388,054</u>	-	<u>17,607,532</u>
Total capital assets, net	<u>\$ 17,697,458</u>	<u>\$ 1,878,106</u>	<u>\$ 1,771,492</u>	<u>\$ 17,804,072</u>

DELAWARE COUNTY REGIONAL WASTEWATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

C. Long-Term Liabilities

1. Revenue Bonds

The District issues bonds to be paid by income derived from the acquired or constructed assets. Revenue bonds outstanding at year end are as follows:

Purpose	Interest Rates	Amount
\$1,062,000 1979 Westbrook Sewage Revenue Bonds	5%	\$ 589,000
\$1,018,000 1981 Daleville Sewage Revenue Bonds	5%	<u>649,000</u>
<b>Total</b>		<u><u>\$ 1,238,000</u></u>

Revenue bonds debt service requirements to maturity are as follows:

	Year Ended	
	<u>December 31</u>	
	Principal	Interest
2006	\$ 27,000	\$ 32,450
2007	62,000	60,550
2008	65,000	57,450
2009	69,000	54,200
2010	72,000	50,750
2011-2015	417,000	196,150
2016-2020	469,000	80,950
2021-2025	<u>57,000</u>	<u>2,850</u>
<b>Totals</b>	<u><u>\$ 1,238,000</u></u>	<u><u>\$ 535,350</u></u>

2. Notes and Loans Payable

The District has entered into various loans. Annual debt service requirements to maturity for the loans, including interest of \$4,943,274, are as follows:

2006	\$ -
2007	940,566
2008	939,416
2009	939,737
2010	941,372
2011-2015	4,704,197
2016-2020	4,693,697
2021-2025	<u>4,824,434</u>
<b>Total</b>	<u><u>\$ 17,983,419</u></u>

DELAWARE COUNTY REGIONAL WASTEWATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

3. Changes in Long-Term Liabilities

Long-term liability activity for the years ended December 31, 2004 and December 31, 2005, was as follows:

<u>2004</u>	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Revenue bonds payable	\$ 1,351,000	\$ -	\$ 55,000	\$ 1,296,000	\$ 26,000
Notes payable	3,392,594	-	3,392,594	-	-
Loans payable	<u>8,191,037</u>	<u>7,173,504</u>	<u>2,250,000</u>	<u>13,114,541</u>	<u>-</u>
Total long-term liabilities	<u>\$ 12,934,631</u>	<u>\$ 7,173,504</u>	<u>\$ 5,697,594</u>	<u>\$ 14,410,541</u>	<u>\$ -</u>
<u>2005</u>					
Revenue bonds payable	\$ 1,296,000	\$ -	\$ 58,000	\$ 1,238,000	\$ 27,000
Loans payable	<u>13,114,541</u>	<u>400,604</u>	<u>475,000</u>	<u>13,040,145</u>	<u>-</u>
Total long-term liabilities	<u>\$ 14,410,541</u>	<u>\$ 400,604</u>	<u>\$ 533,000</u>	<u>\$ 14,278,145</u>	<u>\$ 27,000</u>

D. Restricted Assets

The balances of restricted asset accounts in the enterprise funds are as follows:

Depreciation	\$ 335,799
Bond and interest	199,856
Construction	101,106
Debt service reserve	779,356
Improvement expansion	146,480
Retainage	162,771
Interest receivable	<u>3,837</u>
 Total restricted assets	 <u>\$ 1,729,205</u>

III. Other Information

A. 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; job related illnesses or injuries to employees; and natural disasters.

DELAWARE COUNTY REGIONAL WASTEWATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

The risks of torts; theft of, damage to, and destruction of assets; errors and omissions; job related illnesses or injuries to employees; and natural disasters are 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.

B. Rate Structure

The current rate structure was approved by the District Board of Trustees on November 3, 2004, for the Daleville and Westbrook service areas and on May 22, 2002, for the Royerton service area. The Utility has 2,976 customers.

C. Pension Plan

Public Employees' Retirement Fund

Plan Description

The District contributes to the Indiana Public Employees' Retirement Fund (PERF), a defined benefit pension plan. PERF is an agent multiple-employer public employee retirement system, which provides retirement benefits to plan members and beneficiaries. All full-time employees are eligible to participate in the defined benefit plan. State statutes (IC 5-10.2 and 5-10.3) govern, through the PERF Board, most requirements of the system and give the District authority to contribute to the plan. The PERF retirement benefit consists of the pension provided by employer contributions plus an annuity provided by the member's annuity savings account. The annuity savings account consists of member's contributions, set by state statute at 3% of compensation, plus the interest credited to the member's account. The employer may elect to make the contributions on behalf of the member.

PERF administers the plan and issues a publicly available financial report that includes financial statements and required supplementary information for the plan as a whole and for its participants. The report may be obtained by contacting:

Public Employees' Retirement Fund  
Harrison Building, Room 800  
143 West Market Street  
Indianapolis, IN 46204  
Ph. (317) 233-4162

Funding Policy and Annual Pension Cost

The contribution requirements of plan members for PERF are established by the Board of Trustees of PERF. The District's annual pension cost and related information, as provided by the actuary, is presented in this note.

DELAWARE COUNTY REGIONAL WASTEWATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

Actuarial Information for the Above Plan

	PERF
Annual required contribution	\$ 2,224
Interest on net pension obligation	(939)
Adjustment to annual required contribution	1,070
Annual pension cost	2,355
Contributions made	3,206
Decrease in net pension obligation	(851)
Net pension obligation, beginning of year	(12,945)
Net pension obligation, end of year	\$ (13,796)

Contribution rates:	
District	6.5%
Plan members	3%
Actuarial valuation date	07-01-05
Actuarial cost method	Entry age
Amortization method	Level percentage of projected payroll, closed
Amortization period	40 years
Amortization period (from date)	07-01-97
Asset valuation method	4 year smoothed market

Actuarial Assumptions

Investment rate of return	7.25%
Projected future salary increases:	
Total	5%
Attributed to inflation	4%
Attributed to merit/seniority	1%
Cost-of-living adjustments	2%

Three Year Trend Information

	Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
PERF	06-30-03	\$ 3,798	201%	\$ (12,311)
	06-30-04	2,047	131%	(12,945)
	06-30-05	2,355	157%	(13,796)

DELAWARE COUNTY REGIONAL WASTEWATER DISTRICT  
 REQUIRED SUPPLEMENTARY INFORMATION  
 SCHEDULE OF FUNDING PROGRESS

Public Employees' Pension Plan

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Excess of Assets Over (Unfunded) AAL (a-b)	Funded Ratio (a/b)	Covered Payroll (c)	Excess (Unfunded) AAL as a Percentage of Covered Payroll ((a-b)/c)
07-01-00	\$ 102,801	\$ 50,262	\$ 52,539	205%	\$ 23,118	227%
07-01-01	108,491	58,725	49,766	185%	26,245	190%
07-01-02	103,010	114,150	(11,140)	90%	57,494	(19%)
07-01-03	103,043	101,294	1,749	102%	41,545	4%
07-01-04	104,640	113,015	(8,375)	93%	30,043	(28%)
07-01-05	107,137	88,087	19,050	122%	58,163	33%

DELAWARE COUNTY REGIONAL WASTEWATER DISTRICT  
AUDIT RESULTS AND COMMENTS

ACCOUNTS RECEIVABLE

Upon a review of the Accounts Receivable Trial Balance, we noted the detailed accounts receivable trial balance does not reconcile with the accounts receivable amount recorded on the general ledger.

At all times, the manual and computerized records, subsidiary ledgers, control ledger, and reconciled bank balance should agree. (Accounting and Uniform Compliance Guidelines Manual for Special Districts, Chapter 10)

ORDINANCES AND RESOLUTIONS

The District has established rate ordinances for each of its three service areas. We noted accounts that were not charged according to the rate ordinances. In accordance with the rate ordinances, the District is to charge a 10% fee on all delinquent accounts. However, the unit removed penalties from some delinquent accounts in violation of this ordinance and without approval of the governing body.

Each governmental unit is responsible for complying with the ordinances, resolutions, and policies it adopts. (Accounting and Uniform Compliance Guidelines Manual for Special Districts, Chapter 10)

CONDITION OF RECORDS

The following deficiencies relating to the recordkeeping were present during the audit period. There were a considerable number of posting errors. These errors included expense items posted to construction in progress, construction in progress for completed projects not closed to capital assets, and loan drawdowns not posted to construction in progress. Also, accounts receivable, construction in progress, capital assets, and loans payable control accounts did not agree to the detail provided by the unit.

At all times, the manual and/or computerized records, subsidiary ledgers, control ledger, and reconciled bank balance should agree. (Accounting and Uniform Compliance Guidelines Manual for Special Districts, Chapter 10)

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 MAJOR PROGRAM AND INTERNAL CONTROL OVER  
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

TO: THE OFFICIALS OF THE DELAWARE COUNTY REGIONAL  
WASTEWATER DISTRICT, DELAWARE COUNTY, INDIANA

Compliance

We have audited the compliance of the Delaware County Regional Wastewater District (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 its major federal program for the year ended December 31, 2004 and 2005. The 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 its major federal program is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; 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 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 District's compliance with those requirements.

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

Internal Control Over Compliance

The management of the 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 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 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 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

August 8, 2006

DELAWARE COUNTY REGIONAL WASTEWATER 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 State Revolving Fund Loan	66.458	CS18214802 CS18214802 CS18223201	\$ 145,859 442,657 <u>2,241,932</u>	\$ - 127,017 <u>-</u>
Total federal awards expended			<u>\$ 2,830,448</u>	<u>\$ 127,017</u>

The accompanying note is an integral part of the Schedule of Expenditures of Federal Awards.

DELAWARE COUNTY REGIONAL WASTEWATER DISTRICT  
NOTE TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Note 1. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the Delaware County Regional Wastewater District (primary government) 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.

DELAWARE COUNTY REGIONAL WASTEWATER 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? yes

Section II – Financial Statement Findings

No matters are reportable.

Section III – Federal Award Findings and Questioned Costs

No matters are reportable.

DELAWARE COUNTY REGIONAL WASTEWATER DISTRICT  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

No items were reportable.

DELAWARE COUNTY REGIONAL WASTEWATER DISTRICT  
EXIT CONFERENCE

The contents of this report were discussed on August 8, 2006, with Howard (Mac) Clary, Treasurer; Max L. Abrell, Director; Penny Vester, Billing Administrator; and Pamela Shinn, Office Manager. The officials concurred with our audit findings.