

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

AUDIT REPORT

OF

LAKE GEORGE REGIONAL SEWER DISTRICT

STEUBEN COUNTY, INDIANA

January 1, 2004 to December 31, 2005



FILED

11/27/2006

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OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Manager	James C. Humbarger	01-01-04 to 12-31-06
Treasurer	John S. Bender II	01-01-04 to 12-31-06
President of the Board of Trustees	Charles B. Rowe Michael Carmer Lyle Reiff	01-01-04 to 05-15-05 05-16-05 to 05-15-06 05-16-06 to 12-31-06



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INDEPENDENT AUDITOR'S REPORT

TO: THE OFFICIALS OF THE LAKE GEORGE REGIONAL
SEWER DISTRICT, STEUBEN COUNTY, INDIANA

We have audited the accompanying financial statements of the business-type activities of the Lake George Regional Sewer 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. 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 that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements.

STATE BOARD OF ACCOUNTS

October 25, 2006

LAKE GEORGE REGIONAL SEWER 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	\$ 56,262	\$ 33,937
Accounts receivable	<u>16,394</u>	<u>11,770</u>
Total current assets	<u>72,656</u>	<u>45,707</u>
Noncurrent assets:		
Restricted cash, cash equivalents and investments:		
Improvement cash and investments	212,372	147,910
Revenue fund cash and investments	27,654	10
Reserve fund cash and investments	336,640	338,355
Bond and interest cash and investments	<u>168,445</u>	<u>200,323</u>
Total restricted assets:	<u>745,111</u>	<u>686,598</u>
Capital assets:		
Land, improvements to land and construction in progress	-	126,168
Other capital assets (net of accumulated depreciation)	<u>5,989,386</u>	<u>5,875,112</u>
Total capital assets	<u>5,989,386</u>	<u>6,001,280</u>
Total noncurrent assets	<u>6,734,497</u>	<u>6,687,878</u>
Total assets	<u>6,807,153</u>	<u>6,733,585</u>
<u>Liabilities</u>		
Current liabilities:		
Accounts payable	4,289	1,060
Contracts payable	-	2,656
Customer advance payments	22,489	21,091
Current liabilities payable from restricted assets:		
Advances for construction	6,000	4,000
Loans payable (due within one year)	257,000	263,000
Accrued interest payable	<u>34,510</u>	<u>31,940</u>
Total current liabilities	<u>324,288</u>	<u>323,747</u>
Noncurrent liabilities:		
Loans payable	<u>3,194,000</u>	<u>2,931,000</u>
Total liabilities	<u>3,518,288</u>	<u>3,254,747</u>
<u>Net Assets</u>		
Invested in capital assets, net of related debt	2,503,876	2,775,340
Restricted for debt service	505,085	538,678
Restricted for other purposes	240,026	147,920
Unrestricted	<u>39,878</u>	<u>16,900</u>
Total net assets	<u>\$ 3,288,865</u>	<u>\$ 3,478,838</u>

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

LAKE GEORGE REGIONAL SEWER 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	\$ 532,490	\$ 540,173
Repair fees	7,376	6,125
Permit fees	385	530
Connection fees	<u>18,540</u>	<u>1,739</u>
 Total operating revenues	 <u>558,791</u>	 <u>548,567</u>
Operating expenses:		
Plant operations		
Inspection and maintenance	64,665	71,425
Treatment	22,114	48,339
Administration and general expense		
Salaries and wages	28,500	30,328
Employee benefits	2,369	2,509
Collection fees	3,466	2,938
Conventions and meetings	425	359
Depreciation	113,465	114,274
Dues and subscriptions	65	70
Insurance	6,867	7,010
License and permits	-	40
Meals and entertainment	-	200
Miscellaneous	103	31
Office supplies	2,207	2,873
Postage	503	407
Professional fees	12,164	17,348
Rent	1,073	990
Supplies and service	-	238
Taxes other	13	6
Telephone	3,456	4,959
Travel	2,176	2,630
Utilities	<u>3,690</u>	<u>5,278</u>
 Total operating expenses	 <u>267,321</u>	 <u>312,252</u>
 Operating income	 <u>291,470</u>	 <u>236,315</u>
Nonoperating revenues (expenses):		
Interest and investment revenue	12,294	19,643
Miscellaneous revenue	672	552
Interest expense	(71,540)	(66,450)
Miscellaneous expense	<u>(406)</u>	<u>(87)</u>
 Total nonoperating expenses	 <u>(58,980)</u>	 <u>(46,342)</u>
 Change in net assets	 232,490	 189,973
Total net assets - beginning	<u>3,056,375</u>	<u>3,288,865</u>
Total net assets - ending	<u>\$ 3,288,865</u>	<u>\$ 3,478,838</u>

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

LAKE GEORGE REGIONAL SEWER 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	\$ 554,790	\$ 553,191
Payments to suppliers and contractors	(122,912)	(171,768)
Payments to employees	(31,465)	(32,837)
Other receipts	<u>266</u>	<u>465</u>
Net cash provided by operating activities	<u>400,679</u>	<u>349,051</u>
Cash flows from capital and related financing activities:		
Acquisition and construction of capital assets	(4,044)	(123,512)
Principal paid on capital debt	(252,000)	(257,000)
Interest paid on capital debt	<u>(74,060)</u>	<u>(69,020)</u>
Net cash used by capital and related financing activities	<u>(330,104)</u>	<u>(449,532)</u>
Cash flows from investing activities:		
Proceeds from sales and maturities of investments	49,169	45,697
Interest received	<u>12,294</u>	<u>19,643</u>
Net cash provided by investing activities	<u>61,463</u>	<u>65,340</u>
Net increase (decrease) in cash and cash equivalents	132,038	(35,141)
Cash and cash equivalents, January 1	<u>376,354</u>	<u>508,392</u>
Cash and cash equivalents, December 31	<u>\$ 508,392</u>	<u>\$ 473,251</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	<u>\$ 291,470</u>	<u>\$ 236,315</u>
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation expense	113,465	114,274
(Increase) decrease in assets:		
Accounts receivable	(4,001)	4,624
Increase (decrease) in liabilities:		
Accounts payable	2,613	(3,229)
Payroll withholdings payable	(596)	-
Customer advance payments	3,462	(1,398)
Customer deposits	(6,000)	(2,000)
Misc. nonoperating income	<u>266</u>	<u>465</u>
Total adjustments	<u>109,209</u>	<u>112,736</u>
Net cash provided by operating activities	<u>\$ 400,679</u>	<u>\$ 349,051</u>

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

LAKE GEORGE REGIONAL SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS

I. Summary of Significant Accounting Policies

A. Reporting Entity

The District (primary government) was established under the laws of the State of Indiana. The District operates under an appointed Board of Trustees form of government 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 Other 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.

Debt securities are reported at fair value. Debt securities are defined as securities backed by the full faith and credit of the United States Treasury or fully insured or guaranteed by the United States or any United States government agency.

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

LAKE GEORGE REGIONAL SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

2. Inventories

Materials and supplies purchased throughout the year for repair and maintenance of the District are charged to expense accounts at the time of purchase. Inventories of materials and supplies at year end are not considered material and, therefore, are not reflected in the financial statements.

3. Restricted Assets

Proceeds from debt and funds set aside for payment of revenue bonds, utility plant betterments and improvements, or funds held in a trust capacity, are classified as restricted assets since their use is limited by applicable bond indentures or governing body action.

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 (the dollar values above which asset acquisitions are added to the capital asset accounts), depreciation methods and estimated useful lives of capital assets are as follows:

	Capitalization Threshold	Depreciation Method	Estimated Useful Life
Buildings and improvements	\$ 10,000	Straight-line	60 to 75 years
Equipment	1,000	Straight-line	20 to 50 years

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.

5. Long-Term Obligations

Long-term debt and other long-term obligations are reported as liabilities in the statement of net assets.

II. Detailed Notes on All Funds

A. Deposits and Investments

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

LAKE GEORGE REGIONAL SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

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.

B. Capital Assets

Capital asset activity for the two year audit period ended December 31, 2005, was as follows:

<u>Primary Government</u>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
2004:				
Capital assets, being depreciated:				
Improvements other than buildings	\$ 5,563,978	\$ -	\$ -	\$ 5,563,978
Buildings	621,073	-	-	621,073
Machinery and equipment	<u>560,432</u>	<u>4,044</u>	<u>-</u>	<u>564,476</u>
Totals	<u>6,745,483</u>	<u>4,044</u>	<u>-</u>	<u>6,749,527</u>
Less accumulated depreciation for:				
Improvements other than buildings	533,913	92,735	-	626,648
Buildings	49,686	8,281	-	57,967
Machinery and equipment	<u>63,077</u>	<u>12,449</u>	<u>-</u>	<u>75,526</u>
Totals	<u>646,676</u>	<u>113,465</u>	<u>-</u>	<u>760,141</u>
Total capital assets, net	<u>\$ 6,098,807</u>	<u>\$ (109,421)</u>	<u>\$ -</u>	<u>\$ 5,989,386</u>
2005:				
Capital assets, not being depreciated:				
Land	\$ -	\$ 116,356	\$ -	\$ 116,356
Construction in progress	<u>-</u>	<u>9,812</u>	<u>-</u>	<u>9,812</u>
Total capital assets, not being depreciated	<u>-</u>	<u>126,168</u>	<u>-</u>	<u>126,168</u>
Capital assets, being depreciated:				
Improvements other than buildings	5,563,978	-	-	5,563,978
Buildings	621,073	-	-	621,073
Machinery and equipment	<u>564,476</u>	<u>-</u>	<u>-</u>	<u>564,476</u>
Totals	<u>6,749,527</u>	<u>-</u>	<u>-</u>	<u>6,749,527</u>
Less accumulated depreciation for:				
Improvements other than buildings	626,648	92,735	-	719,383
Buildings	57,967	8,281	-	66,248
Machinery and equipment	<u>75,526</u>	<u>13,258</u>	<u>-</u>	<u>88,784</u>
Totals	<u>760,141</u>	<u>114,274</u>	<u>-</u>	<u>874,415</u>
Total capital assets, being depreciated, net	<u>5,989,386</u>	<u>(114,274)</u>	<u>-</u>	<u>5,875,112</u>
Total capital assets, net	<u>\$ 5,989,386</u>	<u>\$ 11,894</u>	<u>\$ -</u>	<u>\$ 6,001,280</u>

LAKE GEORGE REGIONAL SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

C. Construction Commitments

Construction work in progress is composed of the following:

Project	Expended to December 31, 2005
New services/office building	\$ 9,812

D. Long-Term Liabilities

1. Loan Payable

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 sewer lines. Funds were loaned to the District as construction costs accrued to the maximum allowed. The 1994 loan established a maximum draw of \$5,337,000. At the completion of construction, the outstanding principal balance of \$5,337,000 was amortized over a period of 16 years. Annual debt service requirements to maturity for this loan, including interest of \$395,720, are as follows:

2006	\$ 326,880
2007	326,620
2008	326,260
2009	326,800
2010	326,220
2011-2015	1,631,560
2016-2020	325,380
Total	\$ 3,589,720

2. Changes in Long-Term Liabilities

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

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
2004:					
Loan payable	\$ 3,703,000	\$ -	\$ 252,000	\$ 3,451,000	\$ 257,000
2005:					
Loan payable	\$ 3,451,000	\$ -	\$ 257,000	\$ 3,194,000	\$ 263,000

LAKE GEORGE REGIONAL SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

E. Restricted Assets

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

	2004	2005
Improvement cash and investments	\$ 212,372	\$ 147,910
Revenue fund cash and investments	27,654	10
Reserve fund cash and investments	336,640	338,355
Bond and interest cash and investments	168,445	200,323
 Total restricted assets	 \$ 745,111	 \$ 686,598

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 (excluding post employment benefits); and natural disasters.

The risks of torts; theft of, damage to, and destruction of assets; errors and omissions; job related illnesses or injuries to employees (excluding post employment benefits); 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. Subsequent Events

The District has a contract with Dodzik Engineering to develop plans for a new services/office building to be constructed on land purchased in 2005. Bids for the construction of the building were received and opened in September 2006.

C. Rate Structure

The current rate structure was approved by the District on December 7, 1993. The District has 548 customers.

LAKE GEORGE REGIONAL SEWER DISTRICT
EXIT CONFERENCE

The contents of this report were discussed on October 25, 2006, with John S. Bender II, Treasurer; Karen Craig, Accountant; and Randy Tilbury, CPA. Our audit disclosed no material items that warrant comment at this time.