

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

AUDIT REPORT

OF

WEST CENTRAL CONSERVANCY DISTRICT

HENDRICKS COUNTY, INDIANA

January 1, 2002 to December 31, 2005



FILED
12/19/2006

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OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
District Manager	Ron W. Goff	01-01-02 to 12-31-06
Financial Clerk	Paul Allen	01-01-02 to 12-31-02
	Karl Buetow	01-01-03 to 12-31-03
	Paul Allen	01-01-04 to 12-31-04
President of the Board of Directors	William Holland	01-01-02 to 12-31-04
	Karl Buetow	01-01-05 to 12-31-06



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AN EQUAL OPPORTUNITY EMPLOYER

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INDEPENDENT AUDITOR'S REPORT

TO: THE OFFICIALS OF THE WEST CENTRAL CONSERVANCY
DISTRICT, HENDRICKS COUNTY, INDIANA

We have audited the accompanying financial statements of the business-type activities of the West Central Conservancy District (District), as of and for the years ended December 31, 2002, 2003, 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, 2002, 2003, 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 Schedule of Funding Progress, as listed in the table of contents, is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

The District has not presented Management's Discussion and Analysis 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.

STATE BOARD OF ACCOUNTS

October 31, 2006

WEST CENTRAL CONSERVANCY DISTRICT
STATEMENT OF NET ASSETS
December 31, 2002, 2003, 2004, And 2005

<u>Assets</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
Current assets:				
Cash and cash equivalents	\$ 3,820,575	\$ 5,475,229	\$ 5,535,421	\$ 6,777,465
Investments	57,907	58,674	4,040,915	3,016,452
Accounts receivable (net of allowance)				
Customers	193,491	610,443	1,422,353	1,467,041
Other	664,303	432,878	410,407	380,706
Notes receivable	126,008	116,627	106,668	96,094
Prepaid items	69,496	67,979	47,051	88,500
	<u>4,931,780</u>	<u>6,761,830</u>	<u>11,562,815</u>	<u>11,826,258</u>
Total current assets				
Noncurrent assets:				
Restricted cash, cash equivalents and investments:				
Cash and cash equivalents	195,909	402,568	695,348	43,723
Investments	7,612,200	6,415,170	4,464,125	-
	<u>7,808,109</u>	<u>6,817,738</u>	<u>5,159,473</u>	<u>43,723</u>
Total restricted assets				
Deferred charges	285,195	270,403	255,609	240,813
	<u>285,195</u>	<u>270,403</u>	<u>255,609</u>	<u>240,813</u>
Capital assets:				
Land, improvements to land and construction in progress	1,244,373	687,416	1,862,918	6,962,070
Other capital assets (net of accumulated depreciation)	22,002,320	24,782,583	26,881,703	34,503,296
	<u>23,246,693</u>	<u>25,469,999</u>	<u>28,744,621</u>	<u>41,465,366</u>
Total capital assets				
Total noncurrent assets				
	<u>31,339,997</u>	<u>32,558,140</u>	<u>34,159,703</u>	<u>41,749,902</u>
Total assets				
	<u>36,271,777</u>	<u>39,319,970</u>	<u>45,722,518</u>	<u>53,576,160</u>
<u>Liabilities</u>				
Current liabilities:				
Accounts payable	100,024	287,011	165,789	325,953
Accrued payroll	7,386	12,041	19,152	24,775
Payroll withholdings payable	3,773	8,911	8,095	8,949
Current liabilities payable from restricted assets:				
Revenue bonds payable	250,000	255,000	265,000	275,000
	<u>361,183</u>	<u>562,963</u>	<u>458,036</u>	<u>634,677</u>
Total current liabilities				
Noncurrent liabilities:				
Revenue bonds payable (net of unamortized discounts)	21,285,157	20,800,000	20,275,000	19,730,000
	<u>21,285,157</u>	<u>20,800,000</u>	<u>20,275,000</u>	<u>19,730,000</u>
Total liabilities				
	<u>21,646,340</u>	<u>21,362,963</u>	<u>20,733,036</u>	<u>20,364,677</u>
<u>Net Assets</u>				
Invested in capital assets, net of related debt	1,711,536	4,414,999	8,204,621	21,460,366
Restricted for:				
Debt service	25,000	25,000	25,000	19,005
Capital outlay	7,783,109	6,792,738	5,134,473	24,718
Unrestricted	5,105,792	6,724,270	11,625,388	11,707,394
	<u>14,625,437</u>	<u>17,957,007</u>	<u>24,989,482</u>	<u>33,211,483</u>
Total net assets				
	<u>\$ 14,625,437</u>	<u>\$ 17,957,007</u>	<u>\$ 24,989,482</u>	<u>\$ 33,211,483</u>

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

WEST CENTRAL CONSERVANCY DISTRICT
STATEMENT OF REVENUES, EXPENSES AND OTHER CHANGES IN FUND NET ASSETS
As Of And For The Years Ended December 31, 2002, 2003, 2004, And 2005

	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
Operating revenues:				
Residential sales	\$ 2,153,975	\$ 2,636,769	\$ 2,902,778	\$ 3,374,882
Commercial sales	386,565	554,860	528,864	474,761
Industrial sales	28,984	20,865	35,032	74,925
Development/availability fees	1,661,907	1,076,104	3,961,000	4,052,998
Other	<u>221,446</u>	<u>667,169</u>	<u>1,148,479</u>	<u>2,752,859</u>
Total operating revenues	<u>4,452,877</u>	<u>4,955,767</u>	<u>8,576,153</u>	<u>10,730,425</u>
Operating expenses:				
Collection system - operations and maintenance:				
Salaries and wages	29,062	31,896	104,953	181,723
Employee pensions and benefits	14,811	6,658	37,634	52,684
Purchased power	50,337	90,109	73,016	74,130
Repairs	171,664	87,942	248,240	214,392
Other	12,096	13,063	12,848	24,656
Treatment and disposal - operations and maintenance:				
Salaries and wages	124,884	128,691	112,883	131,405
Employee pensions and benefits	41,678	55,866	36,219	39,889
Contractual services	110,779	61,628	104,689	93,711
Sludge removal	54,560	60,280	53,510	68,816
Purchased power	105,971	73,325	93,562	113,305
Chemicals	19,663	23,516	15,815	16,562
Materials and supplies	7,305	7,879	23,280	19,797
Repairs	26,758	45,285	26,195	44,100
Transportation expenses	6,238	4,058	18,196	37,599
Other	43,016	39,151	41,335	40,543
Administrative and general:				
Salaries and wages	144,686	214,428	260,193	259,341
Employee pensions and benefits	32,518	46,208	50,730	68,280
Materials and supplies	9,134	24,333	15,813	13,435
Contractual services	316,781	452,644	453,373	265,227
Repairs	5,608	8,232	9,007	3,682
Insurance expense	45,218	54,904	64,753	77,980
Bad debt expense	115,000	98,843	18,534	2,171,648
Depreciation and amortization	652,904	713,903	824,375	924,999
Miscellaneous expenses	<u>52,611</u>	<u>30,822</u>	<u>61,224</u>	<u>118,430</u>
Total operating expenses	<u>2,193,282</u>	<u>2,373,664</u>	<u>2,760,377</u>	<u>5,056,334</u>
Operating income	<u>2,259,595</u>	<u>2,582,103</u>	<u>5,815,776</u>	<u>5,674,091</u>
Nonoperating revenues (expenses):				
Interest and investment revenue	142,531	204,865	140,216	361,026
Interest expense	(780,423)	(1,059,332)	(1,064,943)	(1,048,708)
Amortization of bond issue costs	<u>(44,316)</u>	<u>(34,635)</u>	<u>(14,794)</u>	<u>(14,796)</u>
Total nonoperating revenues (expenses)	<u>(682,208)</u>	<u>(889,102)</u>	<u>(939,521)</u>	<u>(702,478)</u>
Income before contributions and transfers	1,577,387	1,693,001	4,876,255	4,971,613
Capital contributions	<u>65,281</u>	<u>1,638,569</u>	<u>2,156,220</u>	<u>3,250,388</u>
Change in net assets	1,642,668	3,331,570	7,032,475	8,222,001
Total net assets - beginning	<u>12,982,769</u>	<u>14,625,437</u>	<u>17,957,007</u>	<u>24,989,482</u>
Total net assets - ending	<u>\$ 14,625,437</u>	<u>\$ 17,957,007</u>	<u>\$ 24,989,482</u>	<u>\$ 33,211,483</u>

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

WEST CENTRAL CONSERVANCY DISTRICT
STATEMENT OF CASH FLOWS
ENTERPRISE FUNDS
As Of And For The Years Ended December 31, 2002, 2003, 2004, And 2005

	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
Cash flows from operating activities:				
Receipts from customers and users	\$ 3,863,658	\$ 4,680,778	\$ 7,778,139	\$ 8,554,364
Payments to suppliers and contractors	(1,100,657)	(992,261)	(1,540,549)	(1,267,649)
Payments to employees	(291,246)	(370,360)	(470,918)	(566,846)
Net cash provided by operating activities	<u>2,471,755</u>	<u>3,318,157</u>	<u>5,766,672</u>	<u>6,719,869</u>
Cash flows from capital and related financing activities:				
Proceeds from capital debt	21,520,163	-	-	-
Capital contributions	65,281	1,638,569	2,156,220	3,250,388
Acquisition and construction of capital assets	(1,200,219)	(2,937,209)	(4,098,997)	(13,645,744)
Principal paid on capital debt	(840,000)	(500,000)	(515,000)	(535,000)
Principal paid on temporary loan	(12,214,887)	-	-	-
Interest paid on capital debt	(780,423)	(1,059,332)	(1,064,943)	(1,048,708)
Net cash provided (used) by capital and related financing activities	<u>6,549,915</u>	<u>(2,857,972)</u>	<u>(3,522,720)</u>	<u>(11,979,064)</u>
Cash flows from investing activities:				
Purchase of investments	(7,613,848)	(767)	(3,982,241)	-
Sale of investments	-	1,197,030	1,951,045	5,488,588
Interest received	142,531	204,865	140,216	361,026
Net cash provided (used) by investing activities	<u>(7,471,317)</u>	<u>1,401,128</u>	<u>(1,890,980)</u>	<u>5,849,614</u>
Net increase in cash and cash equivalents	1,550,353	1,861,313	352,972	590,419
Cash and cash equivalents, January 1	<u>2,466,131</u>	<u>4,016,484</u>	<u>5,877,797</u>	<u>6,230,769</u>
Cash and cash equivalents, December 31	<u>\$ 4,016,484</u>	<u>\$ 5,877,797</u>	<u>\$ 6,230,769</u>	<u>\$ 6,821,188</u>
Reconciliation of operating income to net cash provided by operating activities:				
Operating income	<u>\$ 2,259,595</u>	<u>\$ 2,582,103</u>	<u>\$ 5,815,776</u>	<u>\$ 5,674,091</u>
Adjustments to reconcile operating income to net cash provided used by operating activities:				
Bad debt expense	115,000	98,843	18,534	2,171,648
Depreciation expense	652,904	713,903	824,375	924,999
(Increase) decrease in assets:				
Accounts receivable - customer	(131,454)	(515,795)	(830,444)	(2,216,336)
Accounts receivable - other	(466,600)	231,425	22,471	29,701
Note receivable	8,835	9,381	9,959	10,574
Prepaid items	(30,102)	1,517	20,928	(41,449)
Increase (decrease) in liabilities:				
Accounts payable	58,054	186,987	(121,222)	160,164
Accrued wages payable	7,386	4,655	7,111	5,623
Payroll withholdings payable	(1,863)	5,138	(816)	854
Total adjustments	<u>212,160</u>	<u>736,054</u>	<u>(49,104)</u>	<u>1,045,778</u>
Net cash provided by operating activities	<u>\$ 2,471,755</u>	<u>\$ 3,318,157</u>	<u>\$ 5,766,672</u>	<u>\$ 6,719,869</u>
Noncash investing, capital and financing activities:				
Contributions of capital assets from government	\$ 65,281	\$ 1,638,569	\$ 2,156,220	\$ 3,250,388
Increase (decrease) in fair value of investments	26,561	(46,945)	(75,974)	(35,642)

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

WEST CENTRAL CONSERVANCY 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 elected Board of Directors form of government and provides wastewater treatment services.

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.

The accounts of the business-type activity are maintained on the cash basis of accounting. Under the cash basis of accounting, revenues are recognized when cash is received and expenses are recognized when cash is disbursed.

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. The activity has been classified Class (A or B), requiring full accrual accounting records, by the National Association of Regulatory Utility Commissioners.

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

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. At December 31, 2005, 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.

WEST CENTRAL CONSERVANCY DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

2. Investments

Authorization for investment activity is stated in Indiana Code 5-13. As of December 31, 2005, the Conservancy District had \$2,960,156, invested in U.S. Agencies.

Investment Policies

Indiana Code 5-13-9 authorizes the Conservancy 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 Conservancy 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 Conservancy 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 Conservancy District does not have a formal investment policy for custodial credit risk for investments. At December 31, 2005, the Conservancy District held investments in U.S. Agencies in the amount of \$2,960,156. All of these investments were held by the counterparty's trust department or agent but not in the Conservancy District's name.

WEST CENTRAL CONSERVANCY DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Conservancy District must follow state statute and limit the stated final maturities of the investments to no more than two years. All of the investments in U.S. Agencies have maturities of less than one year.

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. At December 31, 2005, the District's investments in U.S. Agencies were rated AAA by Standard and Poor's.

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 Conservancy District does not have a policy in regards 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. Inventories and Prepaid Items

Materials and supplies purchased throughout the year for repair and maintenance are charged to expense 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.

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.

4. 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 certain bond covenants.

5. 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:

WEST CENTRAL CONSERVANCY DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

	Capitalization Threshold	Depreciation Method	Estimated Useful Life
Buildings and improvements	\$ 5,000	Straight-line	5 - 40 years
Wastewater distribution and collection systems	5,000	Straight-line	5 - 40 years
Machinery and equipment	5,000	Straight-line	5 - 40 years
Transportation equipment	5,000	Straight-line	5 - 40 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. There was no interest capitalized during the audit period.

6. Compensated Absences

- a. Sick Leave – District employees earn sick leave at the rate of 6 days per year. Unused sick leave may be accumulated indefinitely to a maximum of 60 days. Accumulated sick leave is not paid to employees.
- b. Vacation Leave – District employees earn vacation leave at rates from 10 days to 20 days per year based upon the number of years of service. Vacation leave does not accumulate from year to year. Unused vacation leave is paid to employees through cash payments upon termination.
- c. Personal Leave – District employees earn personal leave at the rate of 5 days per year. Personal leave does not accumulate from year to year. Unused personal leave is not paid to employees.

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

7. 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

Deposits, made in accordance with Indiana Code 5-13, with financial institutions in the State of Indiana at year end were entirely insured by the Federal Depository Insurance Corporation or by the Indiana Public Deposit Insurance Fund. This includes any deposit accounts issued or offered by a qualifying financial institution.

WEST CENTRAL CONSERVANCY DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

B. Receivables

The following receivable accounts have timing and credit characteristics different from typical accounts receivable.

C. Capital Assets

Capital asset activity for the years ended December 31, 2002, 2003, 2004, and 2005, was as follows:

<u>2002</u>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets, not being depreciated:				
Land	\$ 237,887	\$ 9,600	\$ -	\$ 247,487
Construction in progress	<u>150,891</u>	<u>919,942</u>	<u>73,947</u>	<u>996,886</u>
Total capital assets, not being depreciated	<u>388,778</u>	<u>929,542</u>	<u>73,947</u>	<u>1,244,373</u>
Capital assets, being depreciated:				
Buildings	847,588	-	-	847,588
Distribution and collection systems	23,201,535	287,295	-	23,488,830
Machinery and equipment	<u>109,547</u>	<u>57,329</u>	<u>-</u>	<u>166,876</u>
Totals	<u>24,158,670</u>	<u>344,624</u>	<u>-</u>	<u>24,503,294</u>
Less accumulated depreciation for:				
Buildings	92,298	25,768	-	118,066
Distribution and collection systems	1,688,434	608,955	-	2,297,389
Machinery and equipment	<u>67,338</u>	<u>18,181</u>	<u>-</u>	<u>85,519</u>
Totals	<u>1,848,070</u>	<u>652,904</u>	<u>-</u>	<u>2,500,974</u>
Total capital assets, being depreciated, net	<u>22,310,600</u>	<u>(308,280)</u>	<u>-</u>	<u>22,002,320</u>
Total capital assets, net	<u>\$ 22,699,378</u>	<u>\$ 621,262</u>	<u>\$ 73,947</u>	<u>\$ 23,246,693</u>

2003

Capital assets, not being depreciated:				
Land	\$ 247,487	\$ 94,301	\$ -	\$ 341,788
Construction in progress	<u>996,886</u>	<u>377,937</u>	<u>1,029,195</u>	<u>345,628</u>
Total capital assets, not being depreciated	<u>1,244,373</u>	<u>472,238</u>	<u>1,029,195</u>	<u>687,416</u>
Capital assets, being depreciated:				
Buildings	847,588	-	-	847,588
Distribution and collection systems	23,488,830	3,489,018	-	26,977,848
Machinery and equipment	<u>166,876</u>	<u>5,148</u>	<u>-</u>	<u>172,024</u>
Totals	<u>24,503,294</u>	<u>3,494,166</u>	<u>-</u>	<u>27,997,460</u>

WEST CENTRAL CONSERVANCY DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

<u>2003 (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:				
Buildings	118,066	25,769	-	143,835
Distribution and collection systems	2,297,389	663,032	-	2,960,421
Machinery and equipment	<u>85,519</u>	<u>25,102</u>	-	<u>110,621</u>
Totals	<u>2,500,974</u>	<u>713,903</u>	-	<u>3,214,877</u>
Total capital assets, being depreciated, net	<u>22,002,320</u>	<u>2,780,263</u>	-	<u>24,782,583</u>
Total capital assets, net	<u>\$ 23,246,693</u>	<u>\$ 3,252,501</u>	<u>\$ 1,029,195</u>	<u>\$ 25,469,999</u>
 <u>2004</u>				
Capital assets, not being depreciated:				
Land	\$ 341,788	\$ 1,000	\$ -	\$ 342,788
Construction in progress	<u>345,628</u>	<u>1,560,200</u>	<u>385,698</u>	<u>1,520,130</u>
Total capital assets, not being depreciated	<u>687,416</u>	<u>1,561,200</u>	<u>385,698</u>	<u>1,862,918</u>
Capital assets, being depreciated:				
Buildings	847,588	-	-	847,588
Distribution and collection systems	26,977,848	2,824,484	-	29,802,332
Machinery and equipment	<u>172,024</u>	<u>99,011</u>	-	<u>271,035</u>
Totals	<u>27,997,460</u>	<u>2,923,495</u>	-	<u>30,920,955</u>
Less accumulated depreciation for:				
Buildings	143,835	25,783	-	169,618
Distribution and collection systems	2,960,421	766,217	-	3,726,638
Machinery and equipment	<u>110,621</u>	<u>32,375</u>	-	<u>142,996</u>
Totals	<u>3,214,877</u>	<u>824,375</u>	-	<u>4,039,252</u>
Total capital assets, being depreciated, net	<u>24,782,583</u>	<u>2,099,120</u>	-	<u>26,881,703</u>
Total capital assets, net	<u>\$ 25,469,999</u>	<u>\$ 3,660,320</u>	<u>\$ 385,698</u>	<u>\$ 28,744,621</u>

WEST CENTRAL CONSERVANCY DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

<u>2005</u>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets, not being depreciated:				
Land	\$ 342,788	\$ -	\$ -	\$ 342,788
Construction in progress	<u>1,520,130</u>	<u>9,939,925</u>	<u>4,840,773</u>	<u>6,619,282</u>
Total capital assets, not being depreciated	<u>1,862,918</u>	<u>9,939,925</u>	<u>4,840,773</u>	<u>6,962,070</u>
Capital assets, being depreciated:				
Buildings	847,588	7,968	-	855,556
Distribution and collection systems	29,802,332	8,480,612	-	38,282,944
Machinery and equipment	<u>271,035</u>	<u>58,012</u>	<u>-</u>	<u>329,047</u>
Totals	<u>30,920,955</u>	<u>8,546,592</u>	<u>-</u>	<u>39,467,547</u>
Less accumulated depreciation for:				
Buildings	169,618	25,753	-	195,371
Distribution and collection systems	3,726,638	860,150	-	4,586,788
Machinery and equipment	<u>142,996</u>	<u>39,096</u>	<u>-</u>	<u>182,092</u>
Totals	<u>4,039,252</u>	<u>924,999</u>	<u>-</u>	<u>4,964,251</u>
Total capital assets, being depreciated, net	<u>26,881,703</u>	<u>7,621,593</u>	<u>-</u>	<u>34,503,296</u>
Total capital assets, net	<u>\$ 28,744,621</u>	<u>\$ 17,561,518</u>	<u>\$ 4,840,773</u>	<u>\$ 41,465,366</u>

D. Construction Commitments

Construction work in progress is composed of the following:

<u>Project</u>	<u>Total Project Authorized</u>	<u>Expended to December 31, 2005</u>	<u>Committed</u>	<u>Required Future Funding</u>
Wastewater Treatment Plant Expansion	<u>\$ 7,090,000</u>	<u>\$ 6,619,282</u>	<u>\$ -</u>	<u>\$ -</u>

E. 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:

<u>Purpose</u>	<u>Interest Rates</u>	<u>Amount</u>
2002 Sewage Works Revenue Bonds	2.18% to 5.60%	<u>\$ 20,005,000</u>

WEST CENTRAL CONSERVANCY DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

Revenue bonds debt service requirements to maturity are as follows:

Year Ended December 31	Principal	Interest
2006	\$ 550,000	\$ 1,030,207
2007	570,000	1,009,762
2008	595,000	986,722
2009	615,000	961,502
2010	645,000	934,153
2011-2015	3,725,000	4,180,496
2016-2020	4,790,000	3,116,436
2021-2025	6,270,000	1,631,039
2026-2030	<u>2,245,000</u>	<u>126,980</u>
Totals	<u>\$ 20,005,000</u>	<u>\$ 13,977,297</u>

2. Changes in Long-Term Liabilities

Long-term liability activity for the years ended December 31, 2002, 2003, 2004, and 2005, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Revenue bonds payable:					
2002	\$ 595,000	\$ 21,800,000	\$ 840,000	\$ 21,555,000	\$ 250,000
Less: deferred amount on refunding	<u>-</u>	<u>53,575</u>	<u>33,732</u>	<u>(19,843)</u>	<u>-</u>
Total for 2002	<u>\$ 595,000</u>	<u>\$ 21,853,575</u>	<u>\$ 873,732</u>	<u>\$ 21,535,157</u>	<u>\$ 250,000</u>
Revenue bonds payable:					
2003	\$ 21,555,000	-	\$ 500,000	\$ 21,055,000	\$ 255,000
Less: deferred amount on refunding	<u>(19,843)</u>	<u>-</u>	<u>19,843</u>	<u>-</u>	<u>-</u>
Total for 2003	<u>\$ 21,535,157</u>	<u>\$ -</u>	<u>\$ 519,843</u>	<u>\$ 21,055,000</u>	<u>\$ 255,000</u>
Revenue bonds payable:					
2004	<u>\$ 21,055,000</u>	<u>\$ -</u>	<u>\$ 515,000</u>	<u>\$ 20,540,000</u>	<u>\$ 265,000</u>
Revenue bonds payable:					
2005	<u>\$ 20,540,000</u>	<u>\$ -</u>	<u>\$ 535,000</u>	<u>\$ 20,005,000</u>	<u>\$ 275,000</u>

WEST CENTRAL CONSERVANCY DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

F. Restricted Assets

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

Revenue bond debt service	\$ 19,005
Revenue bond capital reserve	<u>24,718</u>
Total restricted assets	<u>\$ 43,723</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; medical benefits to employees, retirees, and dependents (excluding postemployment 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; medical benefits to employees, retirees, and dependents (excluding postemployment 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.

The District has been named in a law suit brought by a company that operates an apartment housing project. The suit disputes the District's rate resolution for the project and seeks a reduction in past and future rate charges and late charges. On September 1, 2006, the Hendricks Circuit Court ruled that the District was using correct rate charges and late charges. At December 31, 2005, the accounts receivable – customer balance included \$3,233,585 for this customer. Since this customer is expected to appeal the judge's decision, the District has included \$2,169,293 in allowance for doubtful accounts (a contra-asset account that is netted with accounts receivable in the financial statements) and bad debts expense.

B. Rate Structure

The current rate structure was approved by the District on January 11, 2002. The Utility has 6,195 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.

WEST CENTRAL CONSERVANCY DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

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.

Actuarial Information for the Above Plan

	PERF
Annual required contribution	\$ 8,835
Interest on net pension obligation	(2,433)
Adjustment to annual required contribution	2,773
Annual pension cost	9,175
Contributions made	21,097
Decrease in net pension obligation	(11,922)
Net pension obligation, beginning of year	(33,563)
Net pension obligation, end of year	\$ (45,485)
Contribution rates:	
District	5.25%
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

WEST CENTRAL CONSERVANCY DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

Actuarial Assumptions	PERF
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	\$ 6,811	183%	\$ (15,970)
	06-30-04	3,461	608%	(33,563)
	06-30-05	9,175	610%	(45,485)

WEST CENTRAL CONSERVANCY DISTRICT
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULES OF FUNDING PROGRESS

Public Employees' Retirement Fund

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 AAL as a Percentage of Covered Payroll ((a-b)/c)
07-01-03	\$ 39,114	\$ 25,945	\$ 13,169	151%	\$ 92,866	14%
07-01-04	55,164	63,756	(8,592)	87%	158,684	5%
07-01-05	72,029	103,427	(31,398)	70%	344,239	9%

WEST CENTRAL CONSERVANCY DISTRICT
AUDIT RESULTS AND COMMENTS

LEAVE AND OVERTIME POLICY

The leave policy approved by the board of directors states: "Vacation time may not be carried over and accumulated in subsequent calendar years. Exceptions to this policy may be made in unusual circumstances, each case to be considered separately by the Board of Directors."

One employee was permitted to carry over six (6) vacation days from 2004 to 2005. There was no evidence that the board of directors approved this special circumstance.

Each governmental unit should adopt written policy regarding the accrual and use of leave time and compensatory time and the payment of overtime. Negotiated labor contracts approved by the governing board would be considered as written policy. The policy should conform to the requirements of all state and federal regulatory agencies. (Accounting and Uniform Compliance Guidelines Manual for Special Districts, Chapter 7)

CONDITION OF RECORDS

The subsidiary ledger for accounts receivable – other (also known as exceptional benefits) was not maintained on a consistent basis. A subsidiary ledger was not prepared for 2002, 2003, and 2004. The District's accountant created a subsidiary ledger in 2005. The subsidiary ledger did not include all accounts. Individuals who paid the balance at the commencement of the project were omitted from the subsidiary ledger. Detail to support the amount of principal and interest received from the County Auditor was not always available.

At all times, the manual and/or computerized records, subsidiary ledgers, control ledger, and reconciled bank balance should agree. If the reconciled bank balance is less than the subsidiary or control ledgers, then the responsible official or employee may be held personally responsible for the amount needed to balance the fund. (Accounting and Uniform Compliance Guidelines Manual for Special Districts, Chapter 10)

LATE PAYMENT PENALTIES

The District is charging late payment penalties as set in resolution number 02-02, which states: "As provided by statute, all rates and charges not paid when due . . . are hereby declared delinquent. A penalty of ten percent (10%) of the amount of the bill attaches as a delinquent fee. This amount (being the monthly rate plus the penalty) becomes the rate and charge for the month for which no payment is made. If no payment is made for the subsequent month, the ten percent (10%) penalty shall be assessed against the sum of the previous monthly fee plus ten percent (10%) penalty plus the subsequent monthly charge. For all months not paid when due, the methodology above described shall be used. The ten percent (10%) penalty shall be compounded for each month for which no payment is made."

All penalties should be assessed according to IC 36-9-23-31, which states: "If fees assessed against real property under this chapter . . . are not paid within the time fixed by the municipal legislative body, they are delinquent. A penalty of ten percent (10%) of the amount of the fees attaches to the delinquent fees."

WEST CENTRAL CONSERVANCY DISTRICT
EXIT CONFERENCE

The contents of this report were discussed on November 8, 2006, with Ron W. Goff, District Manager; Paul Allen, Financial Clerk; and Karl Buetow, President of the Board of Directors. The officials concurred with our audit findings.