

STATE BOARD OF ACCOUNTS
302 West Washington Street
Room E418
INDIANAPOLIS, INDIANA 46204-2769

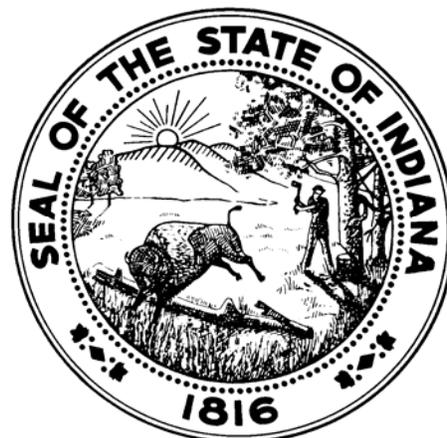
AUDIT REPORT

OF

STEUBEN LAKES REGIONAL WASTE DISTRICT

STEUBEN COUNTY, INDIANA

January 1, 2004 to December 31, 2005



FILED
12/29/2006

TABLE OF CONTENTS

<u>Description</u>	<u>Page</u>
Officials	2
Independent Auditor's Report on Financial Statements and Supplementary Schedule of Expenditures of Federal Awards	3
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.....	4
Statement of Net Assets.....	5
Statement of Revenues, Expenses and Other Changes in Fund Net Assets	6
Statement of Cash Flows	7
Notes to Financial Statements	8-15
Supplemental Audit of Federal Awards:	
Independent Auditor's Report on Compliance With Requirements Applicable to Major Program and Internal Control Over Compliance in Accordance With OMB Circular A-133	18-19
Schedule of Expenditures of Federal Awards.....	20
Note to Schedule of Expenditures of Federal Awards	21
Schedule of Findings and Questioned Costs.....	22
Auditee Prepared Schedules:	
Summary Schedule of Prior Audit Findings.....	23
Exit Conference.....	24

OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Superintendent	Timothy A. Frederick	01-01-04 to 12-31-06
Treasurer	James C. Kidd	01-01-04 to 12-31-06
President of the Board of Trustees	David M. Boudia Billy J. Heckley	01-01-04 to 12-31-05 01-01-06 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 STEUBEN LAKES REGIONAL
WASTE DISTRICT, STEUBEN COUNTY, INDIANA

We have audited the accompanying financial statements of the business-type activities of the Steuben Lakes Regional Waste 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.

In accordance with Government Auditing Standards, we have also issued our report dated December 13, 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. 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

December 13, 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 STEUBEN LAKES REGIONAL
WASTE DISTRICT, STEUBEN COUNTY, INDIANA

We have audited the financial statements of the Steuben Lakes Regional Waste District (District), as of and for the years ended December 31, 2004 and 2005, and have issued our report thereon dated December 13, 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

December 13, 2006

STEUBEN LAKES REGIONAL WASTE DISTRICT
STATEMENT OF NET ASSETS
December 31, 2004 And 2005

<u>Assets</u>	<u>2004</u>	<u>2005</u>
Current assets:		
Operating cash and cash equivalents	\$ 1,577,778	\$ 199,031
Accounts receivable - customer	284,390	862,906
Accounts receivable - other	1,553	210,390
Prepaid items	<u>12,348</u>	<u>12,515</u>
Total current assets	<u>1,876,069</u>	<u>1,284,842</u>
Noncurrent assets:		
Restricted cash, cash equivalents and investments:		
Depreciation cash and investments	2,729,457	280,565
Bond and interest cash and investments	1,368,635	1,497,698
Construction cash and investments	1,982,624	121,980
Customer hook-up deposits cash and investments	32,286	27,190
Interest receivable	<u>3,483</u>	<u>-</u>
Total restricted assets	<u>6,116,485</u>	<u>1,927,433</u>
Deferred charges	<u>263,270</u>	<u>256,688</u>
Capital assets:		
Land, improvements to land and construction in progress	33,273,577	1,006,349
Other capital assets (net of accumulated depreciation)	<u>5,817,519</u>	<u>46,857,503</u>
Total capital assets	<u>39,091,096</u>	<u>47,863,852</u>
Total noncurrent assets	<u>45,470,851</u>	<u>50,047,973</u>
Total assets	<u>47,346,920</u>	<u>51,332,815</u>
<u>Liabilities</u>		
Current liabilities:		
Accounts payable	3,517	18,274
Accrued payroll and withholdings payable	14,518	15,974
Compensated absences	17,823	31,449
Deferred revenue	117,488	114,046
Current liabilities payable from restricted assets:		
Contracts payable	1,285,970	3,008,804
Revenue bonds payable	170,000	345,000
Customer hook-up deposits	32,286	27,190
Capital lease	3,781	3,962
Loan payable	5,000	10,000
Accrued interest payable	<u>341,136</u>	<u>419,458</u>
Total current liabilities	<u>1,991,519</u>	<u>3,994,157</u>
Noncurrent liabilities:		
Revenue bonds payable	5,805,000	5,460,000
Capital leases payable	42,450	38,488
Loan payable	<u>26,609,537</u>	<u>29,314,000</u>
Total noncurrent liabilities	<u>32,456,987</u>	<u>34,812,488</u>
Total liabilities	<u>34,448,506</u>	<u>38,806,645</u>
<u>Net Assets</u>		
Invested in capital assets, net of related debt	6,455,328	12,692,402
Restricted for debt service	1,368,635	1,497,698
Restricted for other purposes	4,744,367	429,735
Unrestricted	<u>330,084</u>	<u>(2,093,665)</u>
Total net assets	<u>\$ 12,898,414</u>	<u>\$ 12,526,170</u>

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

STEUBEN LAKES REGIONAL WASTE 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	\$ 6,364,086	\$ 4,246,214
Penalties	60,500	120,710
Other	<u>190,567</u>	<u>241,448</u>
Total operating revenues	<u>6,615,153</u>	<u>4,608,372</u>
Operating expenses:		
Collection system - operations and maintenance	137,364	93,748
Treatment and disposal - operations and maintenance	16,628	97,149
Administration and general	538,679	944,033
Depreciation	<u>277,459</u>	<u>277,459</u>
Total operating expenses	<u>970,130</u>	<u>1,412,389</u>
Operating income	<u>5,645,023</u>	<u>3,195,983</u>
Nonoperating revenues (expenses):		
Interest and investment revenue	31,106	99,519
Interest expense	(2,392)	(2,219)
Amortization of bond issuance costs	<u>-</u>	<u>(6,582)</u>
Total nonoperating revenues (expenses)	<u>28,714</u>	<u>90,718</u>
Income before contributions and transfers	5,673,737	3,286,701
Loss on abandonment of utility plant in service (see Note 3 D)	<u>-</u>	<u>(3,658,945)</u>
Change in net assets	5,673,737	(372,244)
Total net assets - beginning	<u>7,224,677</u>	<u>12,898,414</u>
Total net assets - ending	<u>\$ 12,898,414</u>	<u>\$ 12,526,170</u>

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

STEUBEN LAKES REGIONAL WASTE 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	\$ 6,865,086	\$ 5,395,725
Payments to suppliers and contractors	(250,350)	(396,307)
Payments to employees	<u>(478,010)</u>	<u>(714,047)</u>
Net cash provided by operating activities	<u>6,136,726</u>	<u>4,285,371</u>
Cash flows from capital and related financing activities:		
Proceeds from capital debt	26,557,537	2,714,462
Acquisition and construction of capital assets	(26,992,149)	(10,998,404)
Principal paid on capital debt	(3,608)	(178,781)
Interest paid on capital debt	(1,376,044)	(1,529,818)
Bond issuance costs	<u>(24,191)</u>	<u>-</u>
Net cash used by capital and related financing activities	<u>(1,838,455)</u>	<u>(9,992,541)</u>
Cash flows from investing activities:		
Proceeds from sales and maturities of investments	-	271,937
Purchase of investments	(8,400)	-
Interest received	<u>60,602</u>	<u>142,854</u>
Net cash provided by investing activities	<u>52,202</u>	<u>414,791</u>
Net increase in cash and cash equivalents	4,350,473	(5,292,379)
Cash and cash equivalents, January 1	<u>3,068,370</u>	<u>7,418,843</u>
Cash and cash equivalents, December 31	<u>\$ 7,418,843</u>	<u>\$ 2,126,464</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	<u>\$ 5,645,023</u>	<u>\$ 3,195,983</u>
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation expense	277,459	277,459
(Increase) decrease in assets:		
Accounts receivable	249,933	(787,353)
Deferred debit	(24,191)	6,582
Prepaid items	(2,936)	(167)
Increase (decrease) in liabilities:		
Accounts payable	(15,521)	14,757
Wages payable	(840)	1,456
Contracts payable	-	1,563,028
Compensated absence payable	<u>7,799</u>	<u>13,626</u>
Total adjustments	<u>491,703</u>	<u>1,089,388</u>
Net cash provided by operating activities	<u>\$ 6,136,726</u>	<u>\$ 4,285,371</u>
Noncash capital and related financing activities:		
Purchase of assets with contracts payable	\$ 1,285,970	\$ 3,008,804

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

STEUBEN LAKES REGIONAL WASTE DISTRICT
NOTES TO FINANCIAL STATEMENTS

I. Summary of Significant Accounting Policies

A. Reporting Entity

The District was created by order of the Stream Pollution Control Board of the State of Indiana as of February 18, 1975, pursuant to Indiana Code (IC) 13-3-2. The board acted on a petition filed by the Trustees of Jamestown, Pleasant, Milgrove, and Jackson Townships of Steuben County. The District is governed by a Board of Trustees, and provides services for the collection and treatment of sewage for the residents of the District.

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.

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

STEUBEN LAKES REGIONAL WASTE 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 the 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 because 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	\$ 1,000	Straight-line	50 years
Improvements other than buildings	1,000	Straight-line	50 years
Machinery and Equipment	1,000	Straight-line	5 to 20 years
Transportation Equipment	1,000	Straight-line	5 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. The total interest expense incurred by the District during the years 2004 and 2005 was \$1,717,180 and \$1,608,139, respectively. Of the amount, \$1,685,163 for 2004 and \$1,566,069 for 2005 was included as part of the cost of capital assets under construction in connection with wastewater treatment facilities construction project.

5. Compensated Absences

- a. Sick Leave – District employees earn sick leave at the rate of 2 days per year. Sick leave does not accumulate from year to year.
- 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 may be accumulated to a maximum of 20 days. Accumulated vacation leave is paid to employees through cash payments upon termination or voluntary end of service.

STEUBEN LAKES REGIONAL WASTE DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

- c. Personal Leave – District employees earn personal leave at the rate of 1 day per year. Personal leave does not accumulate from year to year.

Vacation leave is accrued when incurred in proprietary funds and reported as a fund liability.

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

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.

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	\$ 875,095	\$ -	\$ -	\$ 875,095
Construction in progress	3,262,565	29,135,917	-	32,398,482
				-
Total capital assets, not being depreciated	<u>4,137,660</u>	<u>29,135,917</u>	<u>-</u>	<u>33,273,577</u>
Capital assets, being depreciated:				
Improvements other than buildings	7,380,810	-	-	7,380,810
Buildings	246,370	-	-	246,370
Machinery and equipment	1,937,941	-	-	1,937,941
Transportation equipment	<u>105,930</u>	<u>-</u>	<u>-</u>	<u>105,930</u>
Totals	<u>9,671,051</u>	<u>-</u>	<u>-</u>	<u>9,671,051</u>

STEUBEN LAKES REGIONAL WASTE DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

<u>2004 (continued)</u>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Less accumulated depreciation for:				
Improvements other than buildings	2,109,672	147,616	-	2,257,288
Buildings	26,737	2,290	-	29,027
Machinery and equipment	1,389,390	111,780	-	1,501,170
Transportation equipment	50,274	15,773	-	66,047
Totals	<u>3,576,073</u>	<u>277,459</u>	<u>-</u>	<u>3,853,532</u>
 Total capital assets, being depreciated, net	<u>6,094,978</u>	<u>(277,459)</u>	<u>-</u>	<u>5,817,519</u>
 Total capital assets, net	<u>\$ 10,232,638</u>	<u>\$ 28,858,458</u>	<u>\$ -</u>	<u>\$ 39,091,096</u>
 <u>2005</u>				
Capital assets, not being depreciated:				
Land	\$ 875,095	\$ 108,768	\$ -	\$ 983,863
Construction in progress	32,398,482	13,316,410	45,692,406	22,486
 Total capital assets, not being depreciated	<u>33,273,577</u>	<u>13,425,178</u>	<u>45,692,406</u>	<u>1,006,349</u>
Capital assets, being depreciated:				
Improvements other than buildings	7,380,810	43,587,305	6,298,575	44,669,540
Buildings	246,370	1,755,472	-	2,001,842
Machinery and equipment	1,937,941	240,036	-	2,177,977
Transportation equipment	105,930	825	-	106,755
Totals	<u>9,671,051</u>	<u>45,583,638</u>	<u>6,298,575</u>	<u>48,956,114</u>
Less accumulated depreciation for:				
Improvements other than buildings	2,257,288	147,616	2,032,380	372,524
Buildings	29,027	2,290	-	31,317
Machinery and equipment	1,501,170	111,780	-	1,612,950
Transportation equipment	66,047	15,773	-	81,820
Totals	<u>3,853,532</u>	<u>277,459</u>	<u>2,032,380</u>	<u>2,098,611</u>
 Total capital assets, being depreciated, net	<u>5,817,519</u>	<u>45,306,179</u>	<u>4,266,195</u>	<u>46,857,503</u>
 Total capital assets, net	<u>\$ 39,091,096</u>	<u>\$ 58,731,357</u>	<u>\$ 49,958,601</u>	<u>\$ 47,863,852</u>

STEUBEN LAKES REGIONAL WASTE DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

C. Construction Commitments

Construction work in progress is composed of the following:

Project	Expended to December 31, 2005
Engineering for sewer expansion	\$ 22,486

D. Capital Lease

The District has entered into a capital lease for a backhoe. Future minimum lease payments and present values of the net minimum lease payments under the capital lease as of December 31, 2005, are as follows:

2006	\$ 6,000
2007	6,000
2008	35,983
Total minimum lease payments	47,983
Less amount representing interest	5,533
Present value of net minimum lease payments	\$ 42,450

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:

Purpose	Interest Rates	Amount
Sewage Works Revenue Bonds of 2003	4.5% to 5.25%	\$ 5,805,000

STEUBEN LAKES REGIONAL WASTE DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

Revenue bonds debt service requirements to maturity are as follows:

Year Ended December 31	Principal	Interest
2006	\$ 345,000	\$ 269,855
2007	355,000	254,999
2008	365,000	239,447
2009	380,000	223,353
2010	395,000	206,811
2011-2015	2,285,000	747,489
2016-2020	<u>1,680,000</u>	<u>156,802</u>
Totals	<u>\$ 5,805,000</u>	<u>\$ 2,098,756</u>

2. Loan Payable

The District has entered into a loan. Annual debt service requirements to maturity for the loan, including interest of \$32,728,506, are as follows:

2006	\$ 1,256,164
2007	1,255,739
2008	1,255,314
2009	1,254,889
2010	1,254,464
2011-2015	7,229,791
2016-2020	8,669,256
2021-2025	8,669,862
2026-2030	8,667,648
2031-2035	8,668,790
2036-2040	8,669,664
2041-2043	<u>5,200,925</u>
Total	<u>\$ 62,052,506</u>

3. Changes in Long-Term Liabilities

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

<u>2004</u>	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Revenue bonds	\$ 5,975,000	\$ -	\$ -	\$ 5,975,000	\$ 170,000
Capital lease	49,839	-	3,608	46,231	3,781
Loan payable	<u>52,000</u>	<u>26,562,537</u>	<u>-</u>	<u>26,614,537</u>	<u>5,000</u>
Total long-term liabilities	<u>\$ 6,076,839</u>	<u>\$ 26,562,537</u>	<u>\$ 3,608</u>	<u>\$ 32,635,768</u>	<u>\$ 178,781</u>

STEUBEN LAKES REGIONAL WASTE DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

<u>2005</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Revenue bonds	\$ 5,975,000	\$ -	\$ 170,000	\$ 5,805,000	\$ 345,000
Capital lease	46,231	-	3,781	42,450	3,962
Loan payable	<u>26,614,537</u>	<u>2,714,463</u>	<u>5,000</u>	<u>29,324,000</u>	<u>10,000</u>
Total long-term liabilities	<u>\$ 32,635,768</u>	<u>\$ 2,714,463</u>	<u>\$ 178,781</u>	<u>\$ 35,171,450</u>	<u>\$ 358,962</u>

F. Restricted Assets

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

Depreciation and maintenance account	\$ 280,565
Revenue bond payment account	1,497,698
Customer deposits	27,190
Construction account	<u>121,980</u>
Total restricted assets	<u>\$ 1,927,433</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.

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. Subsequent Events

On February 9, 2006, Sewage Works Bond Anticipation Notes, Series A (the BANS) were issued in the amount of \$3,505,000. The BANS were issued to fund the project costs that the District will incur in constructing its new collection system and treatment facilities for the new service area. The principal and interest of the BANS will be payable solely from the proceeds of the District's proposed Sewage Works Revenue Bonds.

C. Rate Structure

The current rate structure was approved by the District on November 6, 2003. The Utility has 3,858 customers.

STEUBEN LAKES REGIONAL WASTE DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

D. Loss on Abandonment of Utility Plant in Service

Due to environmental concerns, the district converted from a multi residential cluster leach bed system to an activated sludge system. Large amounts of Utility Plant in Service were abandoned due to the conversion.

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SUPPLEMENTAL AUDIT OF
FEDERAL AWARDS



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS
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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 STEUBEN LAKES REGIONAL
WASTE DISTRICT, STEUBEN COUNTY, INDIANA

Compliance

We have audited the compliance of the Steuben Lakes Regional Waste 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, 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, 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

December 13, 2006

STEUBEN LAKES REGIONAL WASTE 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. DEPARTMENT OF AGRICULTURE</u>				
Direct Grant				
Water and Waste Disposal Systems for Rural Communities	10.760			
Wastewater Treatment Plant Improvements Project			<u>\$ 26,562,537</u>	<u>\$ 2,714,463</u>

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

STEUBEN LAKES REGIONAL WASTE DISTRICT
NOTE TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the Steuben Lakes Regional Waste 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.

STEUBEN LAKES REGIONAL WASTE 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
10.760	Water and Waste Disposal Systems for Rural Communities

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

Auditee qualified as low-risk auditee? no

Section II – Financial Statement Findings

No matters are reportable.

Section III – Federal Award Findings and Questioned Costs

No matters are reportable.

STEUBEN LAKES REGIONAL WASTE DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

No matters are reportable.

STEUBEN LAKES REGIONAL WASTE DISTRICT
EXIT CONFERENCE

The contents of this report were discussed on December 13, 2006, with Billy J. Heckley, President of the Board of Trustees; James C. Kidd, Treasurer; and Timothy A. Frederick, Superintendent. Our audit disclosed no material items that warrant comment at this time.