

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

AUDIT REPORT

OF

RACEWAY WATER CONSERVANCY DISTRICT

HENDRICKS COUNTY, INDIANA

January 1, 2001 to December 31, 2005



FILED
01/08/2007

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OFFICIALS

| <u>Office</u> | <u>Official</u> | <u>Term</u> |
|-------------------------------------|------------------|----------------------|
| Financial Clerk | David K. Pasotti | 01-01-01 to 12-31-06 |
| President of the Board of Directors | Tim Shrout | 01-01-01 to 12-31-06 |



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS
302 WEST WASHINGTON STREET
ROOM E418
INDIANAPOLIS, INDIANA 46204-2769

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

INDEPENDENT AUDITOR'S REPORT

TO: THE OFFICIALS OF THE RACEWAY WATER CONSERVANCY
DISTRICT, HENDRICKS COUNTY, INDIANA

We have audited the accompanying financial statements of the business-type activities of the Raceway Water Conservancy District (District), as of and for the years ended December 31, 2001, 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, 2001, 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 District has not presented management 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 11, 2006

RACEWAY WATER CONSERVANCY DISTRICT
STATEMENT OF NET ASSETS
December 31, 2001, 2002, 2003, 2004, and 2005

| <u>Assets</u> | <u>2001</u> | <u>2002</u> | <u>2003</u> | <u>2004</u> | <u>2005</u> |
|--|-------------------|-------------------|-------------------|-------------------|-------------------|
| Current assets: | | | | | |
| Cash and cash equivalents | \$ 20,583 | \$ 15,826 | \$ 51,917 | \$ 90,533 | \$ 93,561 |
| Prepaid items | <u>911</u> | <u>668</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Total current assets | <u>21,494</u> | <u>16,494</u> | <u>51,917</u> | <u>90,533</u> | <u>93,561</u> |
| Capital assets: | | | | | |
| Capital assets (net of accumulated depreciation) | <u>356,330</u> | <u>346,500</u> | <u>336,670</u> | <u>326,840</u> | <u>317,010</u> |
| Total noncurrent assets | <u>356,330</u> | <u>346,500</u> | <u>336,670</u> | <u>326,840</u> | <u>317,010</u> |
| Total assets | <u>377,824</u> | <u>362,994</u> | <u>388,587</u> | <u>417,373</u> | <u>410,571</u> |
| <u>Liabilities</u> | | | | | |
| Current liabilities: | | | | | |
| Accounts payable | - | - | - | 15,150 | 15,150 |
| Loans payable | <u>97,035</u> | <u>15,075</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Total current liabilities | <u>97,035</u> | <u>15,075</u> | <u>-</u> | <u>15,150</u> | <u>15,150</u> |
| Total liabilities | <u>97,035</u> | <u>15,075</u> | <u>-</u> | <u>15,150</u> | <u>15,150</u> |
| <u>Net Assets</u> | | | | | |
| Invested in capital assets, net of related debt | 356,330 | 346,500 | 336,670 | 346,840 | 317,010 |
| Unrestricted | <u>(75,541)</u> | <u>1,419</u> | <u>51,917</u> | <u>55,383</u> | <u>78,411</u> |
| Total net assets | <u>\$ 280,789</u> | <u>\$ 347,919</u> | <u>\$ 388,587</u> | <u>\$ 402,223</u> | <u>\$ 395,421</u> |

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

RACEWAY WATER CONSERVANCY DISTRICT
STATEMENT OF REVENUES, EXPENSES AND OTHER CHANGES IN FUND NET ASSETS
As of and for the years ended December 31, 2001, 2002, 2003, 2004, and 2005

| | <u>2001</u> | <u>2002</u> | <u>2003</u> | <u>2004</u> | <u>2005</u> |
|------------------------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| Operating revenues: | | | | | |
| Facility utilization fee | \$ 177,000 | \$ 131,000 | \$ 85,000 | \$ 59,000 | \$ 10,000 |
| Application and inspection fees | <u>12,860</u> | <u>10,500</u> | <u>6,405</u> | <u>5,880</u> | <u>525</u> |
| Total operating revenues | <u>189,860</u> | <u>141,500</u> | <u>91,405</u> | <u>64,880</u> | <u>10,525</u> |
| Operating expenses: | | | | | |
| Service connection fees | 70,850 | 39,725 | 22,400 | 22,800 | - |
| Application and inspection fees | 12,915 | 9,660 | 5,880 | 6,490 | - |
| Purchased power | 992 | 1,227 | 2,031 | - | - |
| Contractual services - engineering | - | - | 180 | 142 | 225 |
| Contractual services - accounting | 7,772 | 4,842 | 3,991 | 3,068 | 1,922 |
| Contractual services - legal | 2,688 | - | - | 3,799 | 912 |
| Contractual services - other | 422 | - | 581 | - | - |
| Office supplies | 88 | - | 56 | - | - |
| Postage and copies | 113 | 226 | 151 | 27 | 8 |
| Dues and subscriptions | - | - | 50 | - | - |
| Insurance | 2,294 | 4,460 | 5,287 | 4,891 | 4,430 |
| Miscellaneous expenses | 6 | 2,049 | 246 | 197 | - |
| Depreciation and amortization | <u>9,829</u> | <u>9,830</u> | <u>9,830</u> | <u>9,830</u> | <u>9,830</u> |
| Total operating expenses | <u>107,969</u> | <u>72,019</u> | <u>50,683</u> | <u>51,244</u> | <u>17,327</u> |
| Operating income (loss) | <u>81,891</u> | <u>69,481</u> | <u>40,722</u> | <u>13,636</u> | <u>(6,802)</u> |
| Nonoperating expenses: | | | | | |
| Interest expense | <u>(7,892)</u> | <u>(2,351)</u> | <u>(54)</u> | <u>-</u> | <u>-</u> |
| Change in net assets | 73,999 | 67,130 | 40,668 | 13,636 | (6,802) |
| Total net assets - beginning | <u>206,790</u> | <u>280,789</u> | <u>347,919</u> | <u>388,587</u> | <u>402,223</u> |
| Total net assets - ending | <u>\$ 280,789</u> | <u>\$ 347,919</u> | <u>\$ 388,587</u> | <u>\$ 402,223</u> | <u>\$ 395,421</u> |

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

RACEWAY WATER CONSERVANCY DISTRICT
STATEMENT OF CASH FLOWS
ENTERPRISE FUNDS
As of and for the years ended December 31, 2001, 2002, 2003, 2004, and 2005

| | <u>2001</u> | <u>2002</u> | <u>2003</u> | <u>2004</u> | <u>2005</u> |
|--|------------------|------------------|------------------|------------------|-------------------|
| Cash flows from operating activities: | | | | | |
| Receipts from customers and users | \$ 189,860 | \$ 141,500 | \$ 91,405 | \$ 64,880 | \$ 10,525 |
| Payments to suppliers and contractors | <u>(99,051)</u> | <u>(61,946)</u> | <u>(40,185)</u> | <u>(26,264)</u> | <u>(7,497)</u> |
| Net cash provided by operating activities | <u>90,809</u> | <u>79,554</u> | <u>51,220</u> | <u>38,616</u> | <u>3,028</u> |
| Cash flows from capital and related financing activities: | | | | | |
| Principal paid on loans | (80,000) | (81,960) | (15,075) | - | - |
| Interest paid on loans | <u>(7,892)</u> | <u>(2,351)</u> | <u>(54)</u> | <u>-</u> | <u>-</u> |
| Net cash used by capital and related financing activities | <u>(87,892)</u> | <u>(84,311)</u> | <u>(15,129)</u> | <u>-</u> | <u>-</u> |
| Net increase (decrease) in cash and cash equivalents | 2,917 | (4,757) | 36,091 | 38,616 | 3,028 |
| Cash and cash equivalents, January 1 | <u>17,666</u> | <u>20,583</u> | <u>15,826</u> | <u>51,917</u> | <u>90,533</u> |
| Cash and cash equivalents, December 31 | <u>\$ 20,583</u> | <u>\$ 15,826</u> | <u>\$ 51,917</u> | <u>\$ 90,533</u> | <u>\$ 93,561</u> |
| Reconciliation of operating income (loss) to net cash provided by operating activities: | | | | | |
| Operating income (loss) | <u>\$ 81,891</u> | <u>\$ 69,481</u> | <u>\$ 40,722</u> | <u>\$ 13,636</u> | <u>\$ (6,802)</u> |
| Adjustments to reconcile operating income (loss) to net cash provided by operating activities: | | | | | |
| Depreciation expense | 9,829 | 9,830 | 9,830 | 9,830 | 9,830 |
| (Increase) decrease in assets: | | | | | |
| Prepaid items | (911) | 243 | 668 | - | - |
| Increase in liabilities: | | | | | |
| Accounts payable | <u>-</u> | <u>-</u> | <u>-</u> | <u>15,150</u> | <u>-</u> |
| Total adjustments | <u>8,918</u> | <u>10,073</u> | <u>10,498</u> | <u>24,980</u> | <u>9,830</u> |
| Net cash provided by operating activities | <u>\$ 90,809</u> | <u>\$ 79,554</u> | <u>\$ 51,220</u> | <u>\$ 38,616</u> | <u>\$ 3,028</u> |

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

RACEWAY WATER CONSERVANCY DISTRICT
NOTES TO FINANCIAL STATEMENTS

I. Summary of Significant Accounting Policies

A. Reporting Entity

The Raceway Water Conservancy District was established on December 22, 1995, pursuant to Indiana Code 14-33. The District is governed by a board of directors and provides the following service: collection, treatment and disposal of wastewater and other liquid waste. The District has also been empowered to develop forest wildlife areas, ponds, and recreational facilities in connection with beneficial water management and to provide water supply; however, the District does not provide these services currently.

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.

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. The District has no investments of this type.

RACEWAY WATER CONSERVANCY 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. 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:

| | <u>Capitalization Threshold</u> | <u>Depreciation Method</u> | <u>Estimated Useful Life</u> |
|---|-------------------------------------|--------------------------------|----------------------------------|
| Wastewater distribution and collection systems | \$ 5,000 | Straight-line | 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.

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.

The District's investments are categorized to give an indication of the level of risk assumed by the District at year end. Category 1 includes investments that are insured or registered or for which the securities are held by the District or its agent in the District's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the District's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the District's name. The District does not hold any investments required to be categorized.

RACEWAY WATER CONSERVANCY DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

B. Capital Assets

Capital asset activity for the years ended December 31, 2001, 2002, 2003, 2004, and 2005, was as follows:

| | Beginning Balance | Increases | Decreases | Ending Balance |
|--|----------------------|------------|-----------|-------------------|
| 2001: | | | | |
| Capital assets, being depreciated: | | | | |
| Distribution and collection systems | \$ 393,191 | \$ - | \$ - | \$ 393,191 |
| Less accumulated depreciation for: | | | | |
| Distribution and collection systems | 27,032 | 9,829 | - | 36,861 |
| Total capital assets, being depreciated, net | \$ 366,159 | \$ (9,829) | \$ - | \$ 356,330 |
| 2002: | | | | |
| Capital assets, being depreciated: | | | | |
| Distribution and collection systems | \$ 393,191 | \$ - | \$ - | \$ 393,191 |
| Less accumulated depreciation for: | | | | |
| Distribution and collection systems | 36,861 | 9,830 | - | 46,691 |
| Total capital assets, being depreciated, net | \$ 356,330 | \$ (9,830) | \$ - | \$ 346,500 |
| 2003: | | | | |
| Capital assets, being depreciated: | | | | |
| Distribution and collection systems | \$ 393,191 | \$ - | \$ - | \$ 393,191 |
| Less accumulated depreciation for: | | | | |
| Distribution and collection systems | 46,691 | 9,830 | - | 56,521 |
| Total capital assets, being depreciated, net | \$ 346,500 | \$ (9,830) | \$ - | \$ 336,670 |
| 2004: | | | | |
| Capital assets, being depreciated: | | | | |
| Distribution and collection systems | \$ 393,191 | \$ - | \$ - | \$ 393,191 |
| Less accumulated depreciation for: | | | | |
| Distribution and collection systems | 56,521 | 9,830 | - | 66,351 |
| Total capital assets, being depreciated, net | \$ 336,670 | \$ (9,830) | \$ - | \$ 326,840 |

RACEWAY WATER CONSERVANCY DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

| | Beginning Balance | Increases | Decreases | Ending Balance |
|--|----------------------|------------|-----------|-------------------|
| 2005: | | | | |
| Capital assets, being depreciated: | | | | |
| Distribution and collection systems | \$ 393,191 | \$ - | \$ - | \$ 393,191 |
| Less accumulated depreciation for: | | | | |
| Distribution and collection systems | 66,351 | 9,830 | - | 76,181 |
| Total capital assets, being depreciated, net | \$ 326,840 | \$ (9,830) | \$ - | \$ 317,010 |

Depreciation expense was charged to functions/programs of the District as follows:

| | |
|-------|----------|
| Water | \$ 9,830 |
|-------|----------|

C. Short-Term Liabilities

The District entered into a loan for an amount not to exceed \$600,000 for the purchase of a wastewater facility and to provide working capital. The wastewater facility, facility utilization fees and funds on deposit with the financial institution are used as collateral for this loan. This loan was originally issued during 1998 and was fully satisfied during 2003.

Short-term debt activity for the years ended December 31, 2001, 2002, and 2003, was as follows:

| | Beginning Balance | Issued/ Draws | Redeemed Repayments | Ending Balance |
|------|----------------------|------------------|------------------------|-------------------|
| 2001 | \$ 177,035 | \$ - | \$ 80,000 | \$ 97,035 |
| 2002 | 97,035 | - | 81,960 | 15,075 |
| 2003 | 15,075 | - | 15,075 | - |

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 and natural disasters.

The risks torts; theft of, damage to, and destruction of assets; errors and omissions 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. Risk financing is not utilized for the other risks of loss.

B. Rate Structure

The current rate structure was approved by the District on July 21, 1998. The District has no customers.

RACEWAY WATER CONSERVANCY DISTRICT
NOTES TO FINANCIAL STATEMENTS
(Continued)

C. Agreement with Hendricks County Regional Sewer District

The District has an agreement with Hendricks County Regional Sewer District whereby the Sewer District will collect, transport, and treat all wastewater generated for up to 600 homes. The District was responsible to make improvements to pump and convey the wastewater from the District to facilities operated under the Hendricks County Wastewater, LLC (merged with Aqua-Source). The District was required to oversize its improvements so that 1,000 homes could be served. The agreed upon cost for this oversizing was \$66,135, and the Hendricks County Regional Sewer District is to collect a capacity reimbursement fee from future customers utilizing the oversized improvements and to pay such fee to the District. Interest is to be paid on the balance of unrecouped excess cost at the rate of 8% per annum commencing on the date the oversized improvements are complete and will continue to accrue until the earlier of 15 years or payment in full of the cost of the excess capacity. The District is to receive these fees annually. The monthly user fees are billed and collected by Hendricks County Wastewater, LLC. The District pays the Hendricks County Regional Sewer District a connection fee of \$800 per home with \$400 due after the issuance of the wasteload allocation letter and the remaining \$400 due after the issuance of a sewer connection or a building permit. The Hendricks County Regional Sewer District has the option to purchase the improvements made by the District for \$10,000; however, the capacity reimbursement fees received by the District shall be a credit against this price.

RACEWAY WATER CONSERVANCY DISTRICT
EXIT CONFERENCE

The contents of this report were discussed on October 12, 2006, with David K. Pasotti, Board member and Financial Clerk; David N. Smith, Secretary of the Board; Alan Hux, District Attorney; Stephen Schneck, Contractual Accountant; Rebecca Brown, Contractual Accountant; and Shehla Siddiqi, Contractual Accountant. Our audit disclosed no material items that warrant comment at this time.